

**INTERNATIONAL TRADE AND THE IMPACT ON  
THE U.S. SODA ASH INDUSTRY**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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(ROCK SPRINGS, WY)

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# **INTERNATIONAL TRADE AND THE IMPACT ON THE U.S. SODA ASH INDUSTRY**

**THURSDAY, APRIL 15, 2004**

U.S. SENATE,  
SUBCOMMITTEE ON INTERNATIONAL TRADE,  
COMMITTEE ON FINANCE,  
*Rock Springs, WY*

The hearing was convened, pursuant to notice, at 10:00 a.m., in room 1302 of the Western Wyoming Community College, Rock Springs, WY. The Honorable Craig Thomas, chairman of the subcommittee, presiding.

Panels consisted of: Hon. Barbara Cubin, U.S. Congresswoman, Washington, DC; Hon. Meredith Broadbent, Assistant U.S. Trade Representative for Industry, Market Access and Telecommunications, Washington, DC; Dennis Kostick, Senior Mineral Commodities Specialist, U.S. Geological Survey, Reston, VA.

Additional panel members included: John Andrews, president, ANSAC, Westport, CT; James Pearce, manufacturing director and resident manager, FMC Corp., Green River Plant, Green River, WY; Monte Morlock, president, United Steelworkers of America, Local 13214, Rock Springs, WY.

## **OPENING STATEMENT OF HON. CRAIG THOMAS, A U.S. SENATOR FROM WYOMING, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE, SENATE COMMITTEE ON FINANCE**

Senator THOMAS. Good morning, ladies and gentlemen. I think we'll begin; 10 o'clock has arrived.

I certainly appreciate your all being here, and we look forward to hearing information that can be brought before the Senate Finance Subcommittee on International Trade. It's always great to be in Rock Springs, and I thank you for holding this hearing in your community.

We also want to thank the College for their hospitality. We've certainly been impressed. I managed to get through the library this morning. It's a beautiful building and very impressive.

At this time, I would like to thank Chairman Charles Grassley of Iowa, Chairman of the Finance Committee, for allowing me to hold this committee hearing in Wyoming. In addition, Chairman Grassley sent his Chief Trade Counsel Everett Eissenstat and Finance Committee Deputy Clerk Amber Williams to join us as well. So they're here as they would be in a hearing that was held in Washington.

I also want to recognize Bryn Stewart who's on our staff, Legislative Director, who has worked on this, and of course, Pati Smith. Thank you, Pati, for all that you've done here.

There's a number of local officials here, legislators, Speaker of the House, I note mayors and so on. We thank you very much for being here.

In particular, I want to welcome the panel, most of whom have come a long way to be with us today to talk about this issue, and we're very pleased with that. Normally, the Committee allows individuals about 5 minutes. We'll extend that a little, 7 or 8, but I would like to ask you to condense your—your comments here and get to the point. Your written comments will go in the record as you have submitted them.

There will also be time for potential questions to be asked after the written questions which go to the witnesses later.

Let me just quickly, I guess, make a short statement here. I think our purpose, our goal, generally, is to identify those issues that have been facing this industry and will continue to be in the future and to find out what we can do that will have some impact on strengthening this industry.

In an effort to open the market to U.S. goods, the United States has elected to aggressively pursue trade agreements with other countries. While we are the largest nation in the world, our full potential has yet to be achieved, certainly. U.S. businesses continue to face trade barriers, and unnecessary restrictions on the flow of goods. Trade negotiations allow the United States to address barriers put in place to limit the movement of goods and services between nations.

In the U.S. Trade Representative's annual report to Congress, ten categories of barriers were identified, ranging from tariffs, import licensing requirements, to export subsidies and inadequate intellectual property protections. When U.S. businesses encounter these barriers, we frequently find ourselves at a competitive disadvantage. Barriers add to the export costs that do not exist domestically. In many instances, the costs are so great, that we cannot do business in that country.

Trade and investments are essential to the economic growth and the high standard of living we enjoy. Trade as a percentage of gross product is about 26 percent. Jobs supported by exports and imports exceed 22 million.

Without the elimination of world trade barriers, our soda ash industry will continue to struggle. The impact on our state's economy and the people of southwest Wyoming will be devastating. With nearly 90 percent of U.S. soda ash produced in Sweetwater County, the lack of growth in the domestic markets and the ongoing battle to open global markets is hurting the companies, their employees and the communities served by this incredible industry.

The past several years have not been good for the domestic trona producers in terms of growth. It's been relatively flat, prices continue their record slides, profitability has fallen, and most importantly, the number employed in the industry remains in decline. If that isn't bad enough, China for the first time replaced the United States as the world's number one exporter of soda ash. This is a

remarkable change considering that in the '80s, China was the net importer and our largest.

Despite the hard times, however, we continue to improve productivity in the trona patch while manufacturing the finest products in the world. At some point, however, productivity gains will end. The industry will face difficult choices. It's imperative that we aggressively act to create new opportunities in the industry. Developing additional uses for soda ash in the domestic market is essential.

Ensuring the domestic tax and regulatory burdens are reasonable and economically based is critical. Finding a solution to the high cost of transportation from Wyoming to shipping ports and markets is vital to the survivability of the industry. Passage of a comprehensive energy bill is also needed. Businesses and individuals across the nation have been hit hard by the rising fuel prices, and any further delay in enacting an energy policy is unacceptable.

We can achieve additional domestic relief for the industry by reducing Federal royalties on soda ash. I introduced an amendment in March to the U.S. manufactured export subsidy legislation currently pending in the Senate that would reduce the royalty to the statutory minimum. Because the passage of this legislation is uncertain, I also introduced the amendment as a free-standing bill, and my friend Barbara Cubin has also introduced a similar bill in the House, and Mike Enzi is supporting that as well.

U.S. negotiators must aggressively pursue illegal trade barriers that create unfair advantages for competitors and keep soda ash from entering foreign markets. We must be willing to push hard to eliminate these barriers in future trade agreements and take advantage of other options to tear down the existing barriers.

The path to follow will be critical to our future and our social well being. I'm confident we can utilize trade opportunities to improve the quality of life, and we must aggressively continue to do that.

Balancing these interests to achieve fair trade will not be an easy task. I believe the United States is up to the challenge, and our soda ash industry, the folks they employ, and the people of the southwest are counting on us, and we intend to pursue it.

So, we are, again, very pleased that you are here, and we have a special thanks to the Community College and—and Chris Radakovich for all the assistance. We would like to thank our court reporter, as well, for being here.

I'm very pleased this morning that one of my partners and certainly one of our great representatives from Wyoming in the House is here with us, and we're very, very pleased to have Congresswoman Barbara Cubin. Barbara.

[The prepared statement of Senator Thomas appears in the appendix.]

**STATEMENT OF HON. BARBARA CUBIN, A U.S.  
REPRESENTATIVE FROM WYOMING**

Ms. CUBIN. Thank you, Chairman Thomas, and thank you for calling this hearing and for your insight into the issue, and I appreciate the invitation to testify before the Subcommittee on International Trade in regard to the incredibly important issue of the

soda ash industry, and more specifically, the soda ash industry in the state of Wyoming.

The U.S. soda ash industry, which until recently was the largest in the world, has the bulk of its production in four plants in the great state of Wyoming. The total estimated value of the industry is around \$800 million.

With the nation's economy gaining momentum, we are beginning to see a very bright economic outlook for the United States. Nearly one million jobs have been created since August of 2003. Over the past year, the unemployment rate has fallen in 45 out of the 50 states, and the unemployment rate, at 5.7 percent, is lower than the average in 1970, 1980 and the '90s, I should say.

These are all very rosy numbers, but I ask you what these numbers mean to the employees of the Wyoming soda ash industry who have lost their jobs since 1997. These economic numbers don't help them put food on the table, they don't help them buy a new vehicle or buy a new home, they don't help them put their kids through college, and they don't help them sleep at night.

It's my prime responsibility as Wyoming's lone Representative to make sure that every person in Wyoming who wants a good paying job can find one so that they can put food on the table, buy a home with a yard, or raise a family in comfort. People live in this state so that they can hunt and hike with their children away from the rat race of big cities and away from the strong arm of a large state government, an intrusive state government, and also, high taxes. We're blessed in Wyoming to have very low taxes at the personal level. Wyoming is blessed with an incredible quality of life, cheap cost of living, and people who treat one another with respect.

In Wyoming, a stranded motorist won't be there long before somebody stops by, picks them up and takes them to the next town. Back when my son was in school at the University of Wyoming, every weekend there was a bad storm. He would come home, just in case people were stranded along the road, he could pull them out. Well, that's Wyoming.

Carrying out my responsibility to make sure every Wyoming person has access to a good paying job, I've worked to ensure each industry in this state has a level playing field, or sometimes an advantage, if possible, with our neighbors in the United States and around the world. This includes building jobs in energy, trona, agriculture, tourism, just to name a few of the industries.

We were all chagrined when communist China supplanted the United States as the world's largest trona producer. China remains a major producer of synthetic soda ash and is the largest competitor of the United States in the Asian soda ash market.

This past year, China announced it planned to increase capacity at its Weifang Soda Ash Plant by 600,000 tons this year and to construct another plant next year that will produce tons when the plant is completed. It's distressing, indeed, to consider this level of production, especially when you consider how the Chinese exploit the cheap labor that they have and completely disregard even minimal environmental standards.

Add this to the fact that the market for domestic soda ash has been stagnant, as Senator Thomas said, for nearly 20 years in the United States and no one anticipates much more growth here in



the United States in the flat glass or the glass packaging that our domestic market needs. We have to find this growth in places like Asia, Australia, and so on, and that means we must take the Chinese head on, and we have to boost our government in dealing with trade issues concerning soda ash, and we have to make sure that the soda ash industry has every advantage we can give them.

In that vein, I want to fight every battle I can to provide the Wyoming soda ash industry with a lower tax burden and royalty rate and more affordable energy costs.

These are essential to allow all Wyoming soda ash producers to compete on a level playing field with the likes of China, India, and other synthetic producers around the world, and in turn, create jobs in Wyoming.

The United States soda ash industry pays in the ball park of \$100 million in taxes to federal, state and local governments. Due to the growth of China's soda ash exports, it is essential that we provide temporary relief to the U.S. soda ash industry in the form of royalty rate reductions to grow lost jobs.

I mentioned earlier that 700 jobs have been lost in Wyoming in the soda ash industry since 1997, and I find it no coincidence that this began to occur immediately after, or I should say in the wake of an increase of the royalty rate effected by the Bruce Babbitt Department of Interior.

This Federal royalty increase was a crushing blow to the soda ash industry that operated on Federal leases and was, in addition to other significant Federal lease costs, such as bonds, acreage rental fees, sodium prospecting permits and permit bonds.

In one of my first battles as the lone representative to Wyoming, I fought hard in to prevent the rate in soda ash royalty on Federal leases because it was apparent that over time, and considering the tight margins of profit on the soda ash industry, Wyoming—the effect of raising those royalties would result in losing jobs in Wyoming, and that is what happened, and it was quite clear that that was what was going to happen.

I was successful in the House of Representatives Resources Committee in overturning California Representative George Miller's efforts to attach then Secretary Babbitt's proposal of an percent royalty increase across the board on all leases in the Interior Authorization Bill that we were legislating that night. At the same hearing, I was able to attach an amendment that would pursue a more modest increase to 5½ percent on the industry in an effort to prevent the inevitable job loss. I did this because I knew full well that Secretary Babbitt was going to increase the trona royalty to percent if nothing was done.

However, the Interior Authorization Legis—oh, so I passed the amendment of 5½ percent, and then Secretary Babbitt did, in the next year, increase the royalty to percent on existing leases—or 6 percent on existing leases and percent on new leases. My intuition on this issue was correct, and on February 22nd, 1996, the Assistant Secretary of Land and Minerals Bob Armstrong signed the policy that increased the Federal royalty rate from 4 percent to 6 percent for renewed leases and from 5 to 8 percent. My staff said 5, but it was 4, wasn't it?

Thank you. I'm glad to tell my staff they were wrong. We were arguing about this. I was there.

So from 4 to 8 percent on new leases. While I was successful in making sure all leases weren't increased to the 8 percent level, the damage, nonetheless, was done. Beginning late last year, I began efforts to lower the royalty rate to stop the continued flow of American jobs overseas in the soda ash industry and allow the industry to regain its footing.

As you know, I've developed a proposal to achieve this royalty rate reduction on Federal leases from 6 to 2 percent for renewed leases and from 8 to 2 percent for new leases for a period of 5 years in order to allow the industry to begin to see increased export growth and competitiveness in the emerging world market, and above all, to create jobs in Wyoming.

Now, my proposal will also require follow-up study to revisit the royalty rate reduction to determine if the proposed reduction has had the effect that we want. In other words, we have to answer the question, how are the trona companies going to deal with the money that they save; if it goes to pay the stockholders, is that acceptable, or should the money be reinvested in trying to get more contracts in to gain production so that the Federal and the state treasuries don't lose a lot of money and over time, actually make as much or more. Also, what about the state leases and what about private leases?

So those are questions that have to be answered, I think, before we move forward, but as Chairman of the Energy and Minerals Committee, I look forward to continuing the effort to get this done either legislatively or administratively.

Finally—sorry that I'm taking so long. Finally, with regards to more affordable energy costs that Senator Thomas so wisely brought up, we have to continue our efforts to pass a balanced energy bill that will provide greater access for production of energy on Federal lands and increase and diversify our Nation's energy portfolio.

The energy bill that is pending in Congress has several stand-alone bills that I introduced and attached to the bill. One of them is a uranium sales prohibition from the Federal Government so they have to slow the amount of sales so that it doesn't ruin the cost for the companies that are producing uranium.

Coal leasing amendments which will maximize the efficient production of coal in the state, prevent premature closures of mines, ease the post-September 11th bonding crisis in the industry, and make coal more affordable and competitive.

The third bill had to do with rights-of-way legislation that will facilitate the deployment of critical pipeline and telecommunications infrastructure across Federal lands that make up most of the western states.

The fourth one was to increase the chargeability limits of coalbed methane leases with regard to acreages as held by production, ensuring an efficient and orderly production of the coalbed methane.

Certainly, the high cost of energy prices have benefited the state of Wyoming in that it helped to create a \$1.2 billion surplus that we experienced this past year, however, we would all like to see healthy energy prices, but we can't do it at the expense of indus-

tries in Wyoming and all across the United States. High energy prices are devastating to the economy, and we just have to get that energy bill passed so that it will help all the industries.

Senator Thomas, I look forward to fighting vigorously with you on all of these issues and with Senator Enzi and hope that we can provide meaningful help to the soda ash industry.

I would again like to thank you for the opportunity of being here and to present the testimony on behalf of the people of Wyoming. I think that there's nothing any of us want more than for our children to be able to have good paying jobs and to stay in Wyoming, if they choose to, to raise their families and have their homes, so once again, thank you, Senator Thomas.

[The prepared statement of Hon. Barbara Cubin appears in the appendix.]

Senator THOMAS. Thank you. We're glad to have you here. Certainly look forward to continue to work with you and Mike Enzi, and we'll be pursuing these things, so thank you very much.

It's our tradition in Congress not to ask each other questions.

Ms. CUBIN. Right.

Senator THOMAS. We'll get you other guys when you come up here.

So let's now bring up our other panels.

I want to tell you how pleased I am that these folks have made the effort to be here with us, and not only to share their information and their knowledge with us, but to get a better understanding, also, of what our situation is here.

So we have Hon. Meredith Broadbent from the Office of the U.S. Trade Representative who has joined us today, and Mr. Dennis Kostick, Senior Mineral Commodity Specialist for the U.S. Geological Survey on the first panel.

We'll also ask the second panel to come on up and be seated, and then we'll deal with them later. Our final panel is standing, as well, and represents the private sector. John Andrews, president of ANSAC, Jim Pearce, manufacturing director and resident manager, FMC plant, Monte Morlock, president of the United Steelworkers, Rock Springs, WY.

All of you, welcome. We're delighted to have you here.

We'll start, then, with our first panelist, Meredith Broadbent. Thank you so much for joining us.

**STATEMENT OF MEREDITH BROADBENT, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRY, MARKET ACCESS AND TELECOMMUNICATIONS**

Ms. BROADBENT. Thank you, Senator Thomas. I appreciate the opportunity to come to this beautiful state and speak to you about the administration's trade strategy for industrial exports and the success and challenges faced by Wyoming's soda ash industry in foreign markets.

I also want to express my appreciation for the energy and dedication with which your Congressional delegation works with the administration to achieve a fair playing field internationally for farmers, workers and industries in Wyoming.

Economic growth and job creation for American workers are among President Bush's top priorities. Because percent of the

world's consumers live outside U.S. borders, as Senator Thomas mentioned, the President believes that ensuring that our country can compete globally helps to maintain a strong and dynamic economy at home.

To create more jobs in our country, President Bush believes we need to pursue reinforcing trade initiatives on a global, regional, and bilateral basis to establish what Ambassador Zoellick has termed "competition for liberalization." Free trade invigorates the global economy, leading to higher living standards and incomes in the United States and overseas. As our trading partners become more prosperous, their growing middle classes buy more of America's high-quality exports, in turn spurring U.S. economic growth. While consumption of soda ash and other key inputs to consumer products has been flat in the United States, in developing countries demand is burgeoning.

An issue we know that is of increasing concern to U.S. soda ash exporters is the growth of production in China. To put Chinese growth in context, China is now the world's seventh largest economy. Along with the United States, China has served in recent years as one of the world's few engines for economic growth as growth has lagged in other important markets such as in Europe and Japan.

While China enjoys wide access to the U.S. market, we are working to ensure that China lives up to its commitment to provide open access to the Chinese market. With 1.3 billion people who are just now beginning to be able to buy consumer goods, such as glassware and autos and detergent, China is an essential current and future market for U.S. soda ash producers, and for that matter, for most all American manufacturers.

Since China's WTO accession, we have been working hard to make sure China plays by fair and consistent international rules. We have constantly engaged China at all levels of government in an effort to ensure that China lives up to its obligation under the World Trade Organization. When bilateral engagement does not produce results, we are prepared to take other action. For example, the United States on March 18th brought the first case against China in the WTO. This case is against the Chinese tax policy for semiconductors or integrated circuits which discriminates against U.S. products and distorts international investment in the integrated circuit sector.

On the multilateral front, the United States has played a critical leadership role in launching, advancing and reenergizing the Doha Development Agenda, the global trade negotiations in the World Trade Organization.

We believe at USTR that we have some appreciation for the broad range of impediments the soda ash industry is facing in multiple markets around the world and have factored these concerns into our objectives and strategies. For example, one objective for the United States is reaching an agreement to launch what we call trade facilitation negotiations which would aim to address, through new binding international commitments, Customs procedural issues. Onerous and burdensome Customs procedures in other countries are often a crippling hinderance for U.S. exporters, par-

ticularly small and medium-sized enterprises that lack the resources to deal with endless red tape.

The United States has been pursuing an ambitious tariff-cutting formula in the Doha negotiations, trying to get the 148 countries in the World Trade Organization to agree to a specific formula that we could apply to our tariff schedules across the board that would reduce tariffs by a set amount.

In addition to the formula, we agree with the soda ash industry that sectoral accords, what we call zero-tariff initiatives need to be an integral part of the final agreement in the WTO. We want to go to zero in those sectors that are of particular export interest to the United States, like soda ash.

Under the leadership of the Wyoming delegation, zero tariffs for key U.S. exporting industries like soda ash were specifically endorsed by Congress in the Uruguay Round implementing legislation in 1995. A zero-for-zero agreement in the Doha Round would have the effect of eliminating high duties in key markets. For example, there's a 10-percent tariff on soda ash in Brazil, and India has a 20-percent tariff.

Many industries have told us that foreign non-tariff barriers are as big a problem as tariff barriers. What we call NTBs are wide and varied. For example, there may be countries where we should be seeking elimination of licensing requirements. I understand that this might be an issue the soda ash industry has concerns about in countries like Brazil and China. Some NTB issues the chemical industry more broadly has told us they're interested in include regulatory procedures and protection of confidential business data. We would be interested to know if these are also important issues for the soda ash industry.

To pursue NTBs successfully, we need very detailed information on the barriers and on what solutions you might propose. We have been working closely with many industries to prioritize the requests and also to identify possible allies in eliminating these barriers among our trading partners, who face similar barriers.

I'm looking at the yellow light, and I will try to speed up a little bit.

Senator THOMAS. Finish your statement. That's fine.

Ms. BROADBENT. Another area of concern for the United States in the Doha Round has been increased use and possible misuse of antidumping and countervailing duty remedies. In the first half of 2003, India was tied for first with 21 new antidumping measures, creating additional duties that are assessed on imports. China and Brazil are also major users. By contrast, the U.S. only imposed four such measures in that time period.

The Doha Round provides an opportunity to achieve additional transparency and due process in foreign trade remedy proceedings to ensure that U.S. exporters are treated fairly. While we are pressing ahead in the Doha Round to improve market access around the world, we are also working to ensure that current WTO rules and agreements are enforced.

The soda ash industry has been very active in identifying problem areas for ANSAC. As you know, a key issue still in play is a state excise tax imposed on imported soda ash in Brazil, giving an

advantage to the sole Brazilian producer by discriminating against imports from the United States and other countries.

Deputy United States Trade Representative Peter Allgeier raised this issue with Brazil's trade minister during a meeting in Brazil in October 2003. On April 8th of this month, we sent a detailed official presentation to the U.S. Embassy in Brasilia asking about the effects of the tax and expressing our concerns about its consistency with Brazil's WTO obligations, particularly in the area of what we call national treatment. The U.S. Embassy will be making use of this presentation to press the government there. We will be working with Wyoming's Congressional delegations and industry representatives as we get more information, and this will be a current issue on our agenda going forward.

With respect to bilateral negotiations, USTR is moving forward to liberalize trade by negotiating free trade agreements with a broad range of countries so that U.S. exporters can reap the benefits of open markets more immediately. The recently completed U.S.-Australia Free Trade Agreement contained an important win. I commend you, Senator Thomas, for your role in raising the important issue of Australian tariffs on soda ash at a critical time giving the U.S. leverage to negotiate to eliminate them in the free trade agreement.

The January 20th letter from the Wyoming Congressional delegation was key to drawing USTR's attention to the export potential for soda ash in Australia's market and how increased exports will help support the thousands of U.S. jobs that are related to this industry.

We were glad to achieve the immediate elimination of the 5-percent duty in Australia, as soon as Congress approves the Free Trade Agreement.

As we move forward in the WTO the Free Trade Agreements and other bilateral and sub-regional talks, we welcome and encourage your input. The fact that American soda ash exporters have ventured with great success into so many international markets over the years means you have a wealth of experience to draw on. We rely on that experience as we work to ensure increased opportunities for American industries in international trade.

Thank you.

[The prepared statement of Meredith Broadbent appears in the appendix.]

Senator THOMAS. Thank you very much. We'll be back with some questions.

Mr. Kostick.

**STATEMENT OF DENNIS S. KOSTICK, SENIOR MINERAL  
COMMODITY SPECIALIST, U.S. GEOLOGICAL SURVEY**

Mr. KOSTICK. Good morning, Mr. Chairman.

Senator THOMAS. Good morning.

My name is Dennis Kostick. I'm with the U.S. Geological Survey. Combined with the time that I served with the former U.S. Bureau of Mines, I've been the Soda Ash Commodity Specialist for 25 years. I've had the pleasure to serve on several task forces pertaining to soda ash leasing, world issues, environmental issues, and trade discussions.

Chairman Thomas, thank you for this opportunity to present on behalf of the U.S. Geological Survey this statement regarding the history and outlook of the soda ash industry.

The United States has many bountiful resources in major industries that are familiar to most Americans. Several of the industries are symbolic of this Nation's proud industrial heritage. When people think of automobiles, they think of Detroit; Pittsburg is synonymous with the steel industry; and the Pacific Northwest is home to the timber industry.

But there's a fourth industry that not too many people outside of Wyoming have heard of, yet they use products made from it every day. Without this industry, we would not have some of the consumer products that we depend on, such as glass, detergents and baking soda. This fourth industry is the soda ash industry in the United States.

Wyoming is not only the heart of that industry, it is also the soda ash capital of the world. Not unlike the automotive, steel and timber industries which have encountered periods of economic difficulties and trade imbalances, the U.S. soda ash industry is now engaged in a series of competitive challenges from a rival wanting to overtake its position as the world's leader of this important commodity.

The Twentieth Century has been called the greatest century of industrial progress in the history of civilization. The U.S. soda ash industry shared in this progress and has slowly increased its production capabilities beginning in 1881 with the construction of the nation's first synthetic soda ash plant in New York. More synthetic plants were built that reduced the reliance on soda ash imports from England, Germany and Japan. To keep pace with growing demand, ten soda ash companies or 12 plants operated during World War I. During World War II, the war effort caused a surge in soda ash demand, resulting in more capacity coming on stream. By the end of the war, domestic capacity was 42 percent greater than before the war started.

Post war demand remained strong as the military uses from the commodity began reverting to civilian uses. Economic prosperity in the United States and the economic recovery and reconstruction of Europe and Japan caused world soda ash demand to increase.

The early 1950s was the birth of the modern-day trona industry in Wyoming. In the next three decades, four more natural soda ash facilities would be built in Wyoming, utilizing the most cost effective and safest mining and processing technologies in the world. It was clear that Wyoming soda ash was more competitive than the same product made by many of the older synthetic plants elsewhere in the country and the world.

The 1970s could be considered the end of the synthetic soda ash industry in the United States. Of the nine plants that were in operation in 1970, eight closed by the end of the decade because of higher energy costs, the cost to implement antipollution equipment mandated by environmental legislation and competition from the natural soda ash producers in Wyoming and California.

World soda ash production for 2003 is estimated at 38 million metric tons. Of the 31 countries that produced natural and synthetic soda ash, only the United States, Botswana, China, Ethiopia

and Kenya produced soda ash from natural sources. The remainder made synthetic soda ash. Total world natural production represented about 31 percent of combined world production with the United States, China, Russia, India and Germany accounting for 71 percent of the total world output in 2003.

Soda ash is considered to be a mature commodity with stable end use markets that tend to parallel population and economic trends in developed nations. About 60 percent of all soda ash produced is consumed domestically. The remaining 40 percent is exported. Since the mid-1980s, domestic soda ash consumption has been affected by market pressures and product displacements. This is especially true in the glass container and powdered laundry detergent sectors that have lost market share to plastic bottles and liquid detergents, respectively. The result of these displacements is that actual per capita consumption of soda ash has decreased about percent since 1970.

The U.S. soda ash industry has encountered a situation that it has not experienced in nearly a hundred years. It is now the second largest soda ash producing nation in the world. In 2003, China overtook the United States' lead as the number one producer. With the world's largest deposit, the lowest production costs and the most efficient infrastructure to transport the product to ports, the United States is competing with a rival that has been rapidly expanding its soda ash production capacity.

Although China exports only about one-fourth of what the United States ships, it has been successful in promoting additional exports to other Asian markets and in the Western Hemisphere. In 2004, there will be continued competition from China in the Far East markets.

The domestic soda ash industry, especially the Wyoming producers, have experienced some major economic hardships. The average annual value of soda ash in 2003 was the lowest since 1986. U.S. consumption was also the lowest since 1986. Although production in 2003 was the second highest on record and exports were at an all-time high, the export value declined to its lowest point since 1985.

Despite U.S. industry consolidations, there is still about 3 million short tons of excess nameplate capacity, roughly 20 percent of the industry total. These plants were expensive to construct, and they're too large to close, which is why they must remain idle until such time as market conditions improve to justify bringing them back into service.

However, with domestic markets remaining flat, exports must grow to alleviate some of this idle capacity. The years ahead will be challenging. Declining domestic demand and global competition are obstacles to a thriving domestic soda ash industry. The Wyoming producers have dealt with adversity before, and I'm confident they'll rise above it again and regain our position as the world's leader in soda ash. Wyoming is the soda ash capital of the world.

Mr. Chairman, this concludes my statement. I'll be happy to respond to any questions you might have.

[The prepared statement of Mr. Kostick appears in the appendix.]



Senator THOMAS. All right. Thank you. Thank you both very, very much.

Ms. Broadbent, to you, tell us a little bit more about some of the details in your negotiations. Do they impact one industry more than another? Do you talk about them generally? Or do you specifically focus on different industries?

Ms. BROADBENT. USTR is a small agency in the Executive Office of the President. It has responsibility for coordinating trade policy among the many government agencies that have an interest and whose views need to be melded so the U.S. can have a common position at the negotiating table when U.S. negotiators go to Geneva for WTO talks, or to another negotiation.

My office is one of several functional offices in USTR. USTR is basically broken up into regional offices, and cross cutting or functional shops. My office focuses on manufactured exports, market access for manufactured exports which incorporates non-tariff barriers and tariff barriers. We also deal with telecommunication issues, and we compete to get the manufacturer's viewpoint, articulated as clearly as possible. I always tease my—my friend Al Johnson who is the Chief Agriculture Negotiator that basically, 90 percent of U.S. exports are manufactured exports and that we need to keep our voice heard in relation to ag exports.

The way we deal with tariff barriers includes a wide variety of approaches in these different negotiations. My office is charged with looking at the sectors and the industries across the board and how they're affected in each of the different negotiations, and we coordinate closely with industry, and we're always looking for new ideas.

One of our most active places is in Geneva where we work with 148 countries to try to come up with a negotiation that will be the Doha Round that will attack some of these barriers that I discussed. Some of the hot issues these days are steel, autos, and semiconductors. Soda ash is actually a key issue we look at because of its significance to jobs and its clear export interest. We want open markets for premier exporter like the soda ash industry.

I think we can talk further about different categories of trade barriers as we continue today.

Senator THOMAS. Sure. Okay. Well, thank you.

By the way, as you know, the finance bill that is before the Congress right now goes back to when we had a 3-percent tax credit for people who exported manufacturing goods. WTO attacked that, so now we're moving to give 3 percent across the board to all manufacturers, and one of the issues which we were questioned about is soda ash a manufacturing product, and in reality, it is, and so it would be considered a manufacturing product with a 3-percent reduction in taxes, so that's kind of—what is the status of the India thing? We worked together on that. There's a—what? A 6-year temporary injunction? What's the status of the India situation?

Ms. BROADBENT. My understanding is the India situation is resolved, and we had a good gain there by removing that barrier, which was a non-tariff barrier dealing with a competition restriction.

I'm not sure that there's been any increased sales to India by the soda ash industry at this point. But, as far as attacking that bar-

rier, we did have a success based on your communication with us and working with us.

Senator THOMAS. Rio de Janeiro has a discriminating tax. What's the status of that?

Ms. BROADBENT. That one we are working on very actively right now. We raised it in September and have given the Brazilians an official demarche asking for very detailed information on the exact specifics of the tax, who pays, how it's collected, etc. Our sense is that it's a tax where the domestic soda ash producers are getting rebates and our exporters are not getting a rebate, so there tends to be a very significant differential there. It looks on its face to be violating, what we call national treatment obligations in the WTO. The obligation to treat domestic interests fairly in relation to importers. Everybody should be paying the same tax.

A demarche is generally the first step as we move, to escalate things—in the sense of putting more pressure, doing more education of officials in the country to let them understand that they really are violating a rule that they agreed to. We would like to stop short of any sort of a confrontation in the WTO where we would actually file a case (such as we have had to do in the China semi-conductor situation). We are increasing the pressure on Brazil at this point because it is a very serious problem.

Senator THOMAS. How successful are we in identifying hidden barriers?

Ms. BROADBENT. Well, my view on that is we have a couple of methods. We have the National Trade Estimate report, which USTR publishes every year. This is a compendium by country of major trade barriers. We rely on our communications with industry and with our information from posts, which are foreign state department posts, to research, dig up, and figure out why our exports are being kept out of foreign markets.

There is a big division of labor between—the government and the industry are both relying on each other to develop this information. When we try to outline non-tariff barriers that we want to negotiate in the WTO, we will put out a Federal Register notice and take comments from U.S. industry describing where they have a licensing restriction or where there is an unfair discrimination. We work very hard at it, but we are very reliant on getting detailed information from industry, and they need to work with us, and we are very appreciative when an industry will take time to develop this information in a manageable way so that we can actually represent it to the foreign government and get a result.

Senator THOMAS. Let me scoot over to Mr. Kostick for a moment. You have done a study here, and when you look sort of in your crystal ball, are you aware of any research or ideas of additional uses, or additional markets for soda ash?

Mr. KOSTICK. Senator, the industry over the years has reduced some of its staff for research and development, unlike the Chinese soda ash industry which has an association where there's a research and development component built in to help research new opportunities for uses of soda ash.

I think the industry has done a lot individually. Right now, I believe the main opportunities are really the export areas. There has been a change in consumption with glass containers for certain ap-

plications. Some of the distilled spirits, for example, some of the more popular brands, went from glass to plastic, and now they're going back to glass. They felt it's affected their image, as distillers.

So we're seeing some crossover displacements occurring, but as far as any new domestic opportunities, there doesn't appear to be any. I know there was the opportunity with the concept of the Power Ball, which would have benefited, but I think that's still in the preliminary stages, from what I understand.

Senator THOMAS. I see. So if you're buying distilled things to drink, you want them in glass? [Laughter].

Mr. KOSTICK. Yes, sir.

Senator THOMAS. We'll remember that.

Is soda ash distilled from trona higher and better quality than synthetic soda ash?

Mr. KOSTICK. Yes, sir. Many countries that make synthetic soda ash try to emulate the product coming from Wyoming. We have a 99-plus-percent high-grade purity product that the glass industry demands in manufacturing glass, both container glass as well as flat glass.

The Chinese have been looking at trying to improve the quality of their specs, and in some instances, that has occurred, but for the most part, they're still preferring to look at U.S. soda ash as the model to aspire to.

Senator THOMAS. As a practical matter, then, is it possible to substitute synthetic for natural in all instances?

Mr. KOSTICK. Not in all. It's just that the glass furnaces tend to scale using synthetic soda ash. Synthetic soda ash has residual sodium chloride, which is contained in the finished product that is undesirable by many of the glass companies. So, U.S. soda ash, which does not contain very much sodium chloride, is highly preferred.

Senator THOMAS. I see.

Okay. Ms. Broadbent, the U.S. industries has proposed a measure calling for Chinese elimination of its VAT refund for exports. This measure would help prevent a playing field for third market. What steps do you propose the Administration can take on that to press China on that proposal?

Ms. BROADBENT. The VAT soda ash tax in China is something that we've just been hearing things about. There's some different ways that VAT taxes are treated. I think the Brazilian tax—the Brazilian repayment of the VAT tax to the domestic and not to the foreign party is pretty unfair. China is sort of the same situation on semiconductors.

I'm not sure today exactly all details on the China situation. My understanding is that the—it may be a refund that goes equally to both foreign and domestic parties, and in that sense, you know, VAT taxes and rebates are part of the domestic tax policies that may not be actionable or relevant as far as WTO violation, but we're looking into that, and it's an interesting point that was raised in the testimony that we'll hear later today.

Senator THOMAS. It's kind of interesting and it is a fact that China is moving towards more of a private sector economy, but it's my understanding that the soda ash industry there is still largely in the form of state support, subsidized lending from state banks

and that sort of—not in the private sector. Is that so, and if so, what impact can that have on our negotiation?

Ms. BROADBENT. I think that that's a very strong concern, and there is an active program at this point to gather some more information about these reports that we've seen in the newspaper and then today in the industry's testimony about preferential financing for domestic soda ash production in China. As we obtain further information on that, we'll work with you to see what we can do to level the playing field and see what the relevance is with WTO obligations that China's undertaking.

Senator THOMAS. Where are we in terms of the negotiations on Brazil? Brazil has a what? A 10-percent duty?

Ms. BROADBENT. Duty, right. And that's interesting. The Free Trade Agreement of the Americas negotiation is a broad regional negotiation of the countries in this hemisphere. In the soda ash sector, our key objective would be the Brazilian 10-percent tariff, and there also is a high tariff in Argentina that is a significant barrier to U.S. exports. Those negotiations, I think, it would be fair to say are in a bit of a hiatus right now. There's been a pause in the negotiations. They've got a—general frame work, but there's a big discussion on levels of obligations that countries will undertake.

This is the beauty of the competitive liberalization trade policy that I spoke of earlier. The objective of getting the tariff down in Brazil and Argentina potentially could be accomplished in WTO negotiations through a zero-for-zero tariff agreement on the sectors where we might think about getting a critical mass of countries that produce and trade in a product like soda ash.

So we're going at it by a couple of different approaches. It is unclear whether the FTAA negotiations will start up again very soon. I know that there have been lots of conversations between Ambassador Zoellick and other trade ministers in the hemisphere—trying to reignite the FTAA negotiations.

Senator THOMAS. Sort of interesting. Brazil—I happened to go to the Cancun meeting on WTO, and Brazil led the opposition to doing anything at all in WTO, and they—and don't they have a substantial capacity to produce soda ash?

Mr. KOSTICK. About 5000,000 tons.

Senator THOMAS. Is that a substantial amount?

Mr. KOSTICK. Because it's the only synthetic soda ash plant in South America, yes.

Senator THOMAS. I see.

Mr. KOSTICK. But they're being supplied by Europe and the United States for their needs in South America.

Senator THOMAS. The Central American treaty or agreement has been completed but has not yet been brought to Congress—

Ms. BROADBENT. Right.

Senator THOMAS. Is that correct? What was the involvement of trona in that, or is there any?

Ms. BROADBENT. You know, I'm not sure. Maybe the industry would be able to help us out in that. I don't know the staging on that particular agreement. My sense was that it probably was duty free or low duties already, and we didn't need to push very hard on that one, but we would like to hear from the industry as well; is that right?

Mr. KOSTICK. Yes.

Ms. BROADBENT. They don't have duties, and so they are just happy to have our exports.

Senator THOMAS. That's what we need.

Ms. BROADBENT. Yeah, we need more of those.

Senator THOMAS. Well, let's hold off here and go over to the next panel, and it may be when it's all over with, we'll be back again for some general questions, but on this panel, I already introduced them. I'll ask them to go and—as they're listed on my sheet here.

Mr. John Andrews, President of ANSAC. Most of you know Mr. Andrews.

**STATEMENT OF JOHN M. ANDREWS, PRESIDENT AND CEO OF  
THE AMERICAN NATURAL SODA ASH CORPORATION (ANSAC)**

Mr. ANDREWS. Thank you, Senator. It's nice to be back in Wyoming, everybody.

I would like to say, before I start talking about the problems that the soda ash industry has, for those of you who don't know it, that you've got a great Congressional representation in Washington, and I can truly say there is probably no greater cooperation between a particular industry, and that's the trona industry, and the Senators and Congresswoman from Wyoming in all of Washington. Any time we need something, we pick up the phone, and they get back to us quickly, and they've been most helpful in dealing with a number of very difficult issues.

As you know, this business is very unusual in the United States today. We're a commodity that puts 40 percent of our production offshore. This testimony today, the hearing today, is incredibly important to us if we're going to grow this business. Unfortunately, Senator Thomas's question about new uses does not come with a good answer. There are not a lot of new uses coming along, but there are a lot of new consumers coming in third countries around the world, and we are in the best place to supply those people.

Today, I would just like to talk about a couple of issues that are facing us. We have to talk about China because China's industry is growing very fast. As we sit around the room we say, "Why are they growing so fast? Do they have better technology? Do they have better raw materials? Why have they been able to create this very large industry in spite of the fact that we have hundreds of millions of dollars invested in Wyoming that are not operating?"

And the answer to that is very clear. They have subsidized costs in many ways. Whether that is capital, raw materials, or the artificial value of their local currency, they are able to dominate export trade in soda ash in a way that is totally unfair.

Now, we as global traders and with 40 percent of our production going offshore, we are really big believers in free trade, and we fight very hard for it, but we're also very big believers in fair trade. When we have places like Brazil that imposed discriminatory taxes of 17 percent on a commodity, how can we ever be competitive?

In India, we say we've had a victory; we haven't. I have to say USTR and the Congressional staff fought very hard, and you don't win many battles in India, and we won that one, but we still have a 20-percent duty in India.

When we look at these kind of tax problems, and you look at this commodity, it just doesn't impact the guy at the top of the economic ladder. It impacts the guy at the very bottom; the guy that wants to have a window in his house; the guy that wants to have detergent to wash his clothes; the guys who are at the very bottom are the people that are impacted by these tariff and non-tariff barriers.

Now, the move to reduce the royalty tax is one of the most significant things that we've seen take place in a while. We need to reduce our costs. The profitability of this business is not to the point where we can reinvest and start up the plants that are idle in Sweetwater County, and the loss of this million tons a year over the last 5 or 6 years to China, have cost hundreds of jobs in Wyoming and millions of dollars in tax revenue, so we need to do something about that, and we are very pleased to see the efforts.

I would also like to thank USTR today because they have been very supportive of us in a number of issues; India, as well as the Brazil issue, and when we are out there fighting, and we're in 62 countries around the world, can you imagine, selling half a billion dollars of trona, we come up against barriers every day. People talk about trade liberalization and global trade, and it's better today than it's been any time in the 25 years I've been in this business, but there are still barriers for us to overcome, and we need the help of the United States government to do that.

[The prepared statement of Mr. Andrews appears in the appendix.]

Senator THOMAS. Thank you very much. Appreciate it.

Mr. Pearce.

**STATEMENT OF JAMES PEARCE, MANUFACTURING DIRECTOR  
AND RESIDENT MANAGER, FMC WYOMING**

Mr. PEARCE. Mr. Chairman, my name is Jim Pearce, and I'm the manufacturing director and resident manager of the FMC Soda Ash Facility in Green River.

Today I'm testifying on behalf of the Trona Minerals Committee of the Wyoming Mining Association, which is comprised of the four soda ash producers in Southwest Wyoming. In addition to FMC, these are OCI, General Chemical and Solvay, who are represented today in this room.

I would like to begin by thanking you, Senator Thomas, for your leadership in eliminating trade barriers and opening new international markets for Wyoming soda ash. Without your leadership and that of Senator Enzi and Congresswoman Cubin, natural soda ash would not be the force it is in the world today. We also appreciate your dedication in forging new trade agreements such as the Free Trade Agreement with Australia that eliminates duties on soda ash. We urge prompt Congressional approval.

Soda ash, as we all know and talked about, is a key raw material. It's a basic building block for a developing economy since it's used in making glass for construction, automobiles, containers, as well as detergents and chemical raw materials.

Also in my written testimony, I mentioned that the U.S. trade deficit is at record levels with the U.S. soda ash industry contributing approximately \$500 million of surplus to that U.S. trade balance, positive.

Soda ash is the largest inorganic chemical exported from the United States, and I might add from Wyoming, and it is directly responsible for 2,300 jobs in this immediate area of Southwest Wyoming and many more indirect jobs in railroad, shipping, trucking and industries in Wyoming and throughout the United States.

The United States, and in particular the state of Wyoming, has a unique what I'll call a world-class resource; the Wyoming trona basin. That is the lowest-cost source and most environmentally-friendly source of soda ash in the world today. We believe that as the lowest-cost source of soda ash being produced, that it should be seeing increased export growth and demand across the world and in the growing economies that help them throughout the world, and help the U.S. economy to create U.S. jobs and U.S. growth.

However, we find ourselves competing on what we consider to be an unlevel playing field that allows state-run producers in China supported by state-run banks with fixed exchange rates to run energy inefficient factories that then flood this material end of the world market.

In contrast, our natural resource in Wyoming is overburdened with federal, state and private royalties and taxes that make it difficult for us to compete with the Chinese, and we need your help, Senator. Between the four producers, we pay approximately a \$100 million per year in combined royalties, taxes and fees at a time when the profitability of the industry is near zero, and it is difficult for us to respond to the Chinese challenge.

We believe legislation that you have introduced and is being introduced to reduce Federal royalty rate for a period of 5 years will help to reignite the export growth in the industry and will assist us in getting the U.S. industry back on track to its preeminent position as the world's most efficient source of soda ash.

Your legislation is an example of where producers in partner with the U.S. Government can improve the balance of U.S. trade and most importantly add U.S. jobs. We're also asking for your help, Senator, and guidance to have our other partners, those in rail, in energy, in state and local areas to partner with us to use natural trona that we have been blessed with to improve our trade deficit to grow the U.S. economy and to add jobs in the United States.

I'll be glad to answer any questions on this subject, and we have some of the other trona managers here today. If you have anything that I can't answer, they can.

[The prepared statement of Mr. Pearce appears in the appendix.]

Senator THOMAS. Thank you very much.

Okay. Then we're ready for Mr. Morlock.

**STATEMENT OF MONTE MORLOCK, PRESIDENT OF THE UNITED STEELWORKERS OF AMERICA, LOCAL 13213, ROCK SPRINGS, WY**

Mr. MORLOCK. Mr. Chairman, my name is Monte Morlock. I'm the President of the United Steelworkers Local 13214, FMC corporation in Green River, Wyoming.

Six hundred and fifty members at FMC and 400 additional brothers and sisters at General Chemical and another 800 employees at the other two operations here in the trona patch are im-

mensely proud of our role in the industry that remains the largest single exporter in Wyoming. We appreciate you holding this hearing here today to let us tell you our concern about the future of the Wyoming soda ash.

Senator Thomas, in the last 5 years, we have lost 400 jobs at FMC and 700 throughout southwestern Wyoming, even though our—our members' hard work and dedication are the reason this industry is the most efficient in the world.

The rate at which we are exporting jobs now exceeds the rate at which we are growing our exports. Our employees' productivity is unequaled and improving, but we go unrewarded because the Chinese are building their soda ash industry with no-interest loans, State-supported subsidies and cheap labor. Here in Wyoming, we play by the rules. Instead of growing our exports and hiring new people, we are laying off workers who have spent a lifetime of dedication in this industry.

In a very short period, China has gone from being a soda ash importer to being a major soda ash exporter. In fact, they are now the largest single producer of soda ash in the world, even though they haven't produced a single ounce of natural material.

Mr. Chairman, in 1986, the last U.S. synthetic plant closed in the United States. It could not operate competitively under environmental laws. Today, the Chinese are underselling us by putting up inefficient, energy-intensive synthetic plants that operate under very lax environmental laws. A Chinese soda ash worker makes less a day than a minimum wage worker makes in an hour in a U.S. city.

Unfair competition for a matter of a moral—for a matter of immoral comp—competition is why our leadership in AFL-CIO asked the Bush administration to present a workers' right violation case against the Chinese to the World Trade Organization.

Senator, we would hope you would encourage the administration to take up this case and challenge them in these issues. We need to export more soda ash, not more jobs. If we don't stand up as a nation against these outrageous work practices, the Chinese are going to force more and more people out of work in southwestern Wyoming. That is wrong when we have the world's largest deposits of trona and are the most effective mines in the world.

Senator, I know that you and other Congressional delegations have been very vocal in support of our soda ash exports, and we appreciate your efforts. Our plea to you today is that you join with the workers in Wyoming in doing something about the threat of China before it's too late.

We should demand full accountability by the Chinese on the number of injuries and deaths that occur on a routine basis. Wyoming workers are dedicated to safety and supporting management in reaching safety goals that we all share. Our records are a matter of public record for everyone to see. Where are the Chinese safety records? What happens when a Chinese worker becomes sick because of workplace hazards due to lack of environmental laws? What happens when Chinese workers—when a Chinese worker is injured on the job? What happens to a Chinese worker when they become a fatality?



There's no way the Chinese should have an advantage over the U.S. soda ash industry, and yet, our government seems content with looking the other way while our workers here take a hit and make sacrifices.

I hope you can make a change, Senator, and I appreciate you allowing me to come before you today.

[The prepared statement of Mr. Monte Morlock appears in the appendix.]

Senator THOMAS. Thank you very much.

Mr. MORLOCK. Thank you.

Senator THOMAS. I just wanted to mention to you that some of the things you've heard here from these folks who are experts in the field you already know, of course, but the purpose of having this committee hearing here and to be putting it on the Record and taking these statements back with us to DC, and in having Chairman Grassley's Chief of Trade Counsel with us is so that we can then have more evidence to present to the people there as to the need for change, because this is pretty unique. No one else knows anything about this much except Wyoming because they're not impacted, so if you hear things that you already knew, understand that that's going back so that Barbara can use it in her committee and we'll use it in our committee to be able to make the case for some of the things that we'll be seeking to do when we get back there.

We may, too, just to forewarn you guys a little, have time to give you another little shot at a statement based on some of the things that have been said here to make them more clear or new ideas that have been brought up, so we may go around again after a few questions.

But let me ask Mr. Andrews, I guess just to get right down to it, you've emphasized China and we all emphasize China as the problem, but what do you think are some of the practical options, solutions, remedies to the current situation?

Mr. ANDREWS. Well, first off, the Chinese system needs to be restructured, and there's only a limited amount that the United States Government can do about that. Obviously, we can't change their banking system which only requires 6-percent reserves, but we can put pressure in terms of issues regarding the environment, as we just talked about. The soda ash plants in China, and I've visited many of them, are environmental disasters. They could not possibly be operated in the United States today.

I think the biggest impact that can happen is a proper valuation of the Chinese currency, and there are many—I think the United States Government has defined a range somewhere between 15 and 37 percent to which the currency should be revalued. If we take the low end of that, the 15 percent, that revaluation would allow us to become recompetitive in almost every area of the world. So that would be a major change for the United States in terms of helping us.

I agree particularly on the issues of environmental responsibilities. I think all members of the world community meet environmental responsibilities. So far we have not seen that from China.

Senator THOMAS. So the currency stability is a problem? Do they need to establish a value formula?

Mr. ANDREWS. As we know today, as you all know, this currency does not float. The value of the renminbi is not set by world market. It is set by the government of China. It is set at a value that has allowed it to grow its economy at 9 percent for the last 12 years. Now, some of that 9 percent has come at the expense of American workers. Most of you know that today, the percentage of American GDP that comes from the manufacturing segment is at an all-time low. It's at 17 percent. And unless we're careful, that's going to continue to slip. So I believe that a proper valuation of that currency would be a major change in terms of helping us compete against the Chinese.

We are faced with cost factors in Wyoming. Unfortunately, our reserves are not on the ocean, so we can't get to ships immediately. We have to continue to push on the transportation side to get transportation costs down in the state of Wyoming from here to port to make us more competitive. The royalty rate is a great step in the right direction as far as making us more competitive.

The reason that our exports are not growing is the business that we would have to take to grow the business would give us negative returns. So that's why we're making a logical business decision in terms of not growing the business. Where we need to be is where their currencies are fairly valued, we have the most efficient plant, the hardest working people, the highest productivity in this valley of any place in the soda ash world, but we're not able to take advantage of it because of barriers not just in China but also other artificial barriers.

Senator THOMAS. Okay. Thank you. Are there any other countries not producing soda ash that are likely to do so in the next several years?

Mr. ANDREWS. I would doubt so. The only place we see possible expansion would be in India, where we do have a great interest. There are a billion people in India, as well, and we are very interested in that in terms of an emerging market for soda ash. While USTR and Congress have pushed very hard to get the tariffs down to 20 percent, which by the way, when you add all the tariffs up, it's something like 37.5-percent increase in the cost over the land net value. So there are duties other than just a flat duty. We need to continue to work with India to get that duty down to levels that are more like what they are in the rest of the world, which is 5½ percent.

Senator THOMAS. Currency valuation changes in the European union are troublesome as well, aren't they?

Mr. ANDREWS. Well, they're actually helpful at the moment because I guess we're going both ways. It went from where we had a great disadvantage to where today we're at a comparative advantage from where we were a year ago. But at least in the European community, the value of the currency is determined by the financial market. They float. They go wherever they should go. They're not artificially pegged at some level that allows them to be artificially competitive.

Senator THOMAS. Mr. Pearce, obviously, these barriers and the trade problems are an issue. On the other hand, it's my understanding that the costs are substantially higher here. What are the

other elements that are troublesome in terms of the costs of producing this product and delivering it to the market?

Mr. PEARCE. Well, our production costs, I would say, are very competitive with any synthetic plant anywhere in the world. Where we fall to a disadvantage is shipping it from here to the port and from the port to the land in use, and that gets us into a discussion about rail service, and I know there's a rail bill, Senator Burns has submitted a Rail Competition Act, and we would support that, but we basically are captive shippers to one railroad that cannot and will not negotiate rates, and what they say is what it is.

When you look at the cost of transportation, is to the in-point, it is roughly equal to the cost of production, so we pay as much to get it there as we do to make it, and a large portion of that is within the United States to the railroad. We would love to see some competition in the railroad. That is a key point.

Now, one of the other issues is energy, of course, and we're not energy experts, and we do not propose to be energy experts, but we do support the energy bill. This is an energy-intensive industry, and we have to have free access, reasonable access at a reasonable price to the large amounts of energy that it takes to make this product, which by the way, are far less when you compare the energy requirements and the environmental impacts, et cetera, of natural production to synthetic production, we come out very much on the positive side from an energy and environmental impact situation.

From a world prospective, you're better to get your ton of soda ash from Wyoming than you are from a synthetic plant.

Senator THOMAS. In the energy area, which is the largest component; coal or gas?

Mr. PEARCE. All of us use gas. Gas is a large component in our production. We use power, we use coal and gas, and these are the—the individual producers have a different mix of their power, excuse me, of their energy requirements, but gas comes into play for every one of us, and gas has increased in cost by almost double. It's gone from roughly, you know, \$2 per million—MMBtus to we're now looking at 4, 4.50 in the past 3 years, and when you translate that to the amount of energy we use, it ends up being a large impact to the industry. I would estimate in the 30, \$40 million, probably, range in the industry that we weren't spending a few years ago, so increased gas costs has been a big gap.

Senator THOMAS. Mr. Morlock, I had the opportunity to attend the clean air conference in Italy a while back, and the Kyoto agreement, of course, was a big issue. You mentioned the lack of environmental protections in China. In fact, they're exempt from compliance. Would you agree that we should not be a part of the Kyoto agreement?

Mr. MORLOCK. Yes, if it allows China and other countries to, you know, exploit our workers or—and their workers to those types of pollutants, I don't think we should be a part of things of that sort. We need to look out for the workers' rights and health.

Senator THOMAS. Okay. Mr. Andrews, you indicate soda ash comprises about 60 percent of the raw material cost of glass and 30 percent of detergents. How effective are the glass-detergent con-

sumers in convincing their governments to open the market to imports?

Mr. ANDREWS. I think they're flowing very well around the world today. I think the glass market, in fact, has increased on a global trade basis a great deal. Now, there is a negative side to this as well because what we're finding is, in the float glass business, which makes windows and your car windshield and mirrors, those kinds of things, by the end of this year, there will be 280 float glass plants in the world. Roughly half of those will be in China.

So what we can also see a secondary displacement taking place here where more glass will be made in China, and therefore, more glass will become available for other places in the world and will displace American glass that's now made in the United States, and in fact, we now have glass landing on the west coast of the United States from China more cheaply than we can make it in the United States.

Again, I think this speaks to the value of the currency in China relative to the United States dollar.

Senator THOMAS. Mr. Pearce, it's my memory you actually had a rail case some time ago. What was the outcome of that?

Mr. PEARCE. It wasn't fun. That's really not a part of our history we would really like to.

Senator THOMAS. Okay.

Mr. PEARCE. —to go over and relive again, but yes, we did submit that case. It cost us \$6 million to do that, and we won, except as a consequence of winning, we recovered approximately 20 percent of our past costs and, in effect, lost and had to go back and, in effect, negotiate again with UP from—you might imagine what that negotiation looked like, and there—there has been many an occasion that many of the shippers, after observing what happened to us, are very reluctant to take cases forward because it becomes very expensive, and the outlook for successful resolution is low.

Senator THOMAS. What I hear from time to time or in years past and so on, Mr. Andrews, I don't know if you know something about it, but an alternative route or an alternative rail, is that a legitimate consideration?

Mr. ANDREWS. Well, it has been considered. And I don't think they're as active a project into the trona fields at the moment. There have been considerations, but there hasn't been a railroad built that long since the 1800s. It would be a massive project. You would have to build out of the bottom belt to be reasonable, and it is a half a billion dollar, probably, project faced with a number of environmental problems that you can only imagine, I think, crossing Indian lands and burial lands and so forth.

Senator THOMAS. As I recall, in the 1800s, building through here, we had Chinese workers and [laughter]—some thought that wasn't a very good idea [laughter].

Mr. ANDREWS. You know, speaking to Mr. Morlock's point, though, if you look at the numbers, the Chinese worker today makes 2.5 percent of what an American manufacturing worker makes. Now, if that doesn't change—and we're still more competitive in spite of that, but that's a frightening statistic.

Senator THOMAS. The thing we hear about the most in Congress, of course, are those industries where there's lots of hand labor, like

textiles and other low-skill jobs. Is hand labor relative to other things greater in this industry or not?

Mr. PEARCE. Well, I can relate and maybe you can relate this from personal experience, but I know some of our people have been over there and visited, and you will see a large stack of bagged soda ash sitting on the ground, directly on the ground, and the question was asked how do you move that? Where are the fork trucks? And they say “we don’t need fork trucks, we just call people and they move them from here to there.” Those are the things that we take for granted in terms of mechanical assistance that are not necessarily in existence.

Senator THOMAS. What’s your reaction to that?

Mr. MORLOCK. You know, I’ve only heard rumors and stories of people that have been over—been over to China, but it’s quite staggering to see what we do with machinery and what they use manpower for for such a low cost.

To what Jim said, they—they go to a truck, they don’t have fork-lifts. They don’t have to pay upkeep on them. They rather hire another worker if one calls in sick or is fatally injured or whatever, but the number of people over there is endless. The cost to have them there is nil.

Senator THOMAS. It’s my understanding, of course, there’s been a loss of jobs, which no one likes, otherwise, it’s my understanding that you and your group and the industry here has gotten along pretty well in terms of working together to keep prices down. Would you say that’s accurate?

Mr. MORLOCK. We don’t always agree, but for the most part, we end up with a solution that we can both live with.

Senator THOMAS. So there hasn’t been any immense strain between you two?

Mr. MORLOCK. No. I believe we have a pretty good working relationship.

Senator THOMAS. Good. Meredith, do you consider the Asian currency floats and so on in your work as a trade barrier?

Ms. BROADBENT. Well, the way—we’re organized in government, and as the President’s made very clear, there’s one cabinet official that speaks on the currency, which is the Secretary of Treasury, and so it’s very delicate for any other government official to make many comments.

I guess the observation that I have is that the World Trade Organization historically has not really contemplated monetary policy under its purview of international disciplines and I think we need to be thinking about what it means to bring that into the World Trade Organization. As I understand it from treasury officials, there are a lot of concerns about enforcing a fast revaluation of the Chinese currency on the unstable banking system and concerns about inflation, but it’s not an area that I’m at all schooled in nor do I have responsibility for.

I think it’s a valid question, and I think we’ll work in Washington to explore what the effects on manufacturing exports are, and there’s a lot of them, as we’ve been saying, transportation costs, energy costs, relationships with other businesses, and clearly, pricing affects exports very—very deeply, and so it’s something that

we need to look at, but in our agency, we do not have responsibility for international currency regulation.

Senator THOMAS. Now, I understand that, but if you felt that was a major or an important factor, I presume you could get together with the treasury and get them working on it, could you not?

Ms. BROADBENT. Right. Ambassador Zoellick works with his colleagues in the cabinet on this. My understanding is they—the cabinet talks about this regularly.

Senator THOMAS. That's good. We don't want you to get the CIA, FBI involved [laughter].

Well, let me ask you if you have any follow-up comments at all or further thoughts.

Mr. KOSTICK. I think that the number one topic has been China, but with their double digit growth rate over the last several years, they are encountering some major problems with their environment and with their energy consumption. There's only a finite amount of energy resources that have to be distributed in that country, not just for the soda ash community, but other industries as well, so I think that what we're seeing is sort of what's happened in other parts of the world, namely the United States, where they're concerned about the environment and at some point it will have to be addressed over there.

The World Health Organization identified the top ten most air polluted cities in the world, and seven of them were in China, so there are major problems that are occurring over there that at some point will have to be addressed.

Senator THOMAS. I think, Mr. Andrews, we had a little discussion last evening, and I believe you were talking about at least some people believing that the balloon in China is going to burst, and their growth cannot continue.

Mr. ANDREWS. Well, I think our concern is, to your earlier question, if I could just comment on the question of currency, I don't know what the last estimate for our trade deficit with China is going to be this year, but I believe it will be \$150 billion or in excess of that. Now, something's wrong. I mean, those are huge numbers to have a trade deficit with one country at that level, and if it's not currency, then what else is it? Because I think that is true.

And I think the question on the bubble becomes this, and this is actually frightening, I think: In the event that this growth does stop in China and they have been investing in some of these basic industries, whether it's soda ash or steel or plastic or chemicals, and the bubble bursts and domestic consumption goes away, those plants that have been built will then have tremendous excess capacity that they will just flood into the world markets, and I see that as a tremendous opportunity for disruption, so I guess to Meredith's point do we want to see continued growth in China? Do we want to see responsible growth? Of course we do, but we don't want to see that bubble burst and see this kind of upset take place, but I think it's a tremendous risk to the workers of America and to the industries in America today.

Senator THOMAS. You know, in terms of trade, one of the impressions I get, and I think it's generally valid, is that many of the 140 plus countries involved in the WTO, instead of talking about trade issues, they begin to try and define and separate themselves into

developed and undeveloped countries. Some of the undeveloped are not willing, really, don't think they need to do anything about trade. On the contrary, they want us to send money and they did the same thing, frankly, on global warming. Just because they didn't produce as much, they want to sell other people's credits, so there continues this great division.

Where does China stand in terms of being developed or undeveloped?

Ms. BROADBENT. It depends on who you ask. I mean, this is a vexing problem in the World Trade Organization that countries are dealing with right now because there is no rule or definition that's broadly agreed upon in the WTO on what's a developed country and what's a developing country and what's a least-developed country, and it has been treated differently whether you're talking about the substantive agreement or you're talking about the non-ag, the industrial tariff side of things, that part of the negotiation which I work on. One of our key objectives is to get some differentiation in developing countries so that the United States can isolate the key advanced developing markets which is really where we will achieve the most growth in our exports.

Markets in India and Brazil, they're moving up the development ladder, have growing populations, and are, in many cases, very key very competitive in certain sectors, often just as competitive as our exporters are. We have been looking for ways to differentiate so that the poorest of the poor in Africa that are horribly dependent on tariff revenue and so forth can be set aside in the sense that they may not be asked to do as much. They may only have to "bind their tariffs," meaning that they've agreed they won't raise them above a certain level.

The problem is the Indias and the Brazils want to keep everyone together and kind of hide behind the skirts of the poorest of the poor, so that's one issue where countries that are of advanced levels will have to step up to the plate for us to have a successful Doha agenda.

On the China question, that is similar because China, of course, wants to be called a developing country, and they talk about their 1.3 billion people and the huge concerns that they have with feeding folks. But the issue is that they have key competitive industries, and our market is open to them. They are huge beneficiaries of the trading system, and Ambassador Zoellick has been very clear that they are going to have to contribute to trade liberalization in a way commensurate with the benefits they are getting from the system.

And they will argue that, "We are a recently acceded member, that we just joined the WTO, we're still trying to swallow tariff reductions that we've made and trying to deal with these liberalizations that we just made, you can't ask us to do anything else," on this basis, China is asking for special treatment in the form of a special formula for tariff reductions. So this will be the drama that plays itself out in the next couple of years in Geneva, but something that we're very firm about and we'll insist on their contributions.

Senator THOMAS. Since the Uruguay Round, I think the administration has identified soda ash as a priority zero-for-zero. You're

going to the Doha Round which is the next major round since Uruguay.

Ms. BROADBENT. Exactly.

Senator THOMAS. What is zero-to-zero and where are we on it and what do you expect?

Ms. BROADBENT. Well, zero-for-zero is a key initiative by U.S. industry because we have key exporting industries like soda ash that want, in their sector, not to be treated by a formula where there would be only minor reductions in the tariff globally, but by a rule that everyone goes to zero; we all trade with zero tariffs.

This has been highly successful in the historic agreement on information technology where there was a very special organized way to approach it, what we call critical mass strategy, where there was enough pressure on countries that wanted to liberalize that the key traders, the key producers in the information technology products, semiconductors, telecommunications equipment and so forth, all agreed to go to zero. There were countries that were not part of the critical mass, poorer countries, not big producers, that said they couldn't be part of it, but in the sense that we got, 90 percent of the world's major producers and traders to participate voluntarily, that was a highly successful agreement.

And we would like to pursue that again with what we call our zero-for-zero coalition which is industries like toys and—and a wide variety of industries, including soda ash, that want to go for zero tariffs.

This requires developing coalitions in Europe and Japan and key markets where they have successful sectors that are similar to ours. That's what we're working on with the industry now, building these allies for the—"we all go to zero approach." That doesn't mean everybody in the WTO, not the poorest of the poor, but the key producers need to do this, and that's what we'll be fighting for.

And it's hard to tell how it will work, but we are making progress. Countries have gotten back to the table in Geneva, and we are shooting to—agree to a general framework by July for negotiations to proceed, to be successful, from our point of view, this framework will need to include a work plan to negotiate zero duties on certain sectors, seeing what we can do to liberalize ambitiously there.

Senator THOMAS. And soda ash is in that category?

Ms. BROADBENT. Yes.

Senator THOMAS. Okay. Let's go back to any comments you may have after hearing this or sort of closing or so on.

Mr. ANDREWS. We're supporters of zero-for-zero. We would like to see it in all countries, not just selected ones, and we do appreciate the efforts of, again, the Congressional staff and USTR in pushing our cases forward. We probably have as many as anybody, Meredith, I don't know, but it seems like everybody knows soda ash in Washington.

Senator THOMAS. I hope so. [Laughter] They all use baking soda, don't they?

Mr. ANDREWS. Yes, they do.

Senator THOMAS. Nobody knows where that comes from—

Mr. ANDREWS. No.

Senator THOMAS. I don't think. In any event—



Mr. PEARCE. I guess I would not have to—probably not add, but I would want to reiterate that this is an industry under threat, and that we, as the industry, I'll call them future owners of the industries, the OCIs, the Generals and the Solvays, we own the businesses on one level, but the people who are making the money are the other partners. When you look at the hundred million dollars that we pay out to the other partners, being the lease holders and the taxing entities and the like, they're making far more than the industry does, and this is a capital-intensive industry, and in order to exist, it has to have a constant infusion of capital, and you have to justify that capital, and so there—it is a situation where industry right now needs help. It needs help from the other—from the other partners, and that's what we're asking for.

Senator THOMAS. Okay. Mr. Morlock.

Mr. MORLOCK. I would just like to thank you all for helping us out.

I believe the workers of the trona patch, realization has set in in the last 5 years, and they're starting to see just a threat that really is out there to them, so thank you.

Senator THOMAS. I should have asked you this, are there any opportunities for more producers coming into the business? I presume not at this time. Not very attractive, apparently?

Mr. PEARCE. I wouldn't invest my money if I was asked [Laughter]. As we all know, an activity which began in Colorado, has not been as successful as it was billed when it was first created.

And when one looks at it from the outside, with the cost of the industry, and current selling prices, I can't, in my wildest dreams, imagine anybody starting up a brand new facility.

Senator THOMAS. Is there an impact of the mineral conflicts between gas and oil and trona? Has that emerged again or is still there or what impact does that have?

Mr. PEARCE. Well, that's an ongoing discussion, and there is a discussion about the leaseholder rights, when you have duplicate leasing rights on the same property, and there has been actually something on the order of a 10-year dialogue between the oil and gas industry and the trona industry and the BLM to try to work towards an equitable answer to that. I don't think that answer is available as we sit here today.

But it makes common sense to think that you can't be drilling gas wells through active underground mining areas. I think there's a huge safety issue there, and it's one that is easy to understand. High pressure gas in an underground mine is completely incompatible, and you could sterilize the mine. You could actually render it nonfunctional if you get into that sort of thing, so that is ongoing concern. But I think the right people are talking about it.

Senator THOMAS. That's good. We're pleased that some of the people that are involved in it are here today. It's a tough one.

The thing we've been involved in, of course, has been the split estate, which is quite different, and that is the surface owned by one person and the minerals owned by someone else. We were still working in getting that resolved as well, but it's a difficult issue.

Meredith, any closing comments?

Ms. BROADBENT. Just to say thanks for the communication that we get from the industry. We feel like it's productive and it helps

us focus our priorities. There's a lot of areas, as we look around the world, where we can do more. We've had some good successes, we have some really difficult problems ahead of us, and it helps us to be able to articulate and make our case with these countries when we do hear from the industries, so your time isn't wasted, and we really appreciate it.

Senator THOMAS. Okay.

Mr. KOSTICK. The USGS has had a long history of working with the U.S. soda ash industry and other Federal and state organizations as well, and we look forward to working in the future with any type of discussions on this topic and look forward to having maybe some joint industry and governmental discussions.

Senator THOMAS. Okay. Appreciate it.

Well, let me thank all of you for being here. I think this has been a very knowledgeable panel, and it's helped to identify the issues and hopefully what we might be able to do. Thank all of you for being here. We need to work together for an industry that affects us all, and you, of course, more directly, but all of us in Wyoming, all of us in the country, need to make this work and to have a fair opportunity in the foreign market is something that is critically important.

So we want to thank you very much, and we'll keep the record open if there are questions for the panelists between now and next Wednesday.

Otherwise, the committee is adjourned. Thank you.

[Whereupon, at 11:40 a.m., the hearing was concluded.]

## APPENDIX

### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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#### PREPARED STATEMENT OF JOHN M. ANDREWS

Good morning, Mr. Chairman. 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 highlight some of the major foreign government barriers facing U.S. soda ash exports. The focus of my testimony this morning will be on such barriers in China, Brazil, and South Africa.

#### ANSAC—A STRONG SUPPORTER OF GLOBAL FREE TRADE

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. By any measure, ANSAC's story is an extraordinary one of exporting success. Blessed by the natural resource trona, U.S. soda ash has no competitive peer in the world. 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.

This 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 our exports have been accomplished with the efforts of the Wyoming Delegation, working closely with U.S. trade negotiators. Most recently this partnership resulted in the immediate elimination of Australia's soda ash tariff agreed to in the U.S.-Australia Free Trade Agreement (FTA) negotiations.

As you know, without the natural advantage of trona, the rest of the world produces soda ash through a synthetic process that is more expensive than American methods. In order to compete against U.S. soda ash, many inefficient foreign producers, some with connections to the highest levels of their governments, must rely on state protection to survive. They often do so to the detriment of their domestic industries and workers. Considering that soda ash comprises about 60% of the raw material cost of glass and 30% of the raw material cost of detergents, protected soda ash prices local value-added production out of export markets; subjects local value-added production to import competition, and passes higher prices on to the general population.

As tariffs fall, however, in many cases as mandated by negotiated trade agreements, governments must resort to ever-creative methods to protect inefficient domestic producers. Because of this, ANSAC strongly supports reducing the federal royalty payment in that it will contribute to making soda ash more globally competitive and better able to meet the new challenges facing U.S. exports overseas. Today I will concentrate my discussion on the illustrative examples of China, Brazil, and South Africa. These countries are prominent examples not just because of the egregious manner in which governments intervene to protect local producers but because of the substantial impact these state-sponsored measures have on U.S. exports.

Given that U.S. soda ash consumption has been essentially flat for years, it is vital that we grow exports in order to stabilize U.S. production and employment. The beneficial effects of soda ash manufacturing to the regional Wyoming economy and national economy cannot be overstated. It bears mentioning that a proposed reduction in the 6% federal royalty on soda ash, which Jim Pearce of the Wyoming Mining Association is speaking to today, will have a substantial positive impact on U.S. soda ash exports. Though the competitiveness of U.S. soda ash in the global

marketplace is unquestioned, the malaise affecting other sectors of U.S. manufacturing threatens the U.S. soda ash industry as well. This impacts not only the 2,300 workers directly employed in well-paying jobs right here in Wyoming but the thousands of workers employed in other soda ash producing states, in value-added manufacturing and transportation, and in jobs dependent on the health of the regional economy. Adding insult to injury, the countries that have erected the highest barriers to U.S. soda ash in order to shield inefficient local producers are also among the largest, most-promising, and fastest growing markets in the world.

#### CHINA

Overall, China's policies aimed at expanding domestic production and exports have resulted in the loss of well over 1 million metric tons of business per year to this country. This, in turn, has led to hundreds of lost jobs in Wyoming and millions of dollars in lost tax revenues to the 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 and export soda ash industry. This program has been an overwhelming success on almost all accounts, 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. Between 1999 through last year alone, annual Chinese soda ash production has expanded by more than 50%, or 3.7 million MT. By comparison, U.S. production expanded by a much more modest 0.3 million MT during the same period.

#### *Broad and Targeted Government Intervention Shuts out U.S. Exports*

China's impressive advances in soda ash production owe little to free market principles of innovation, efficiency, or profitability. Rather, since over 95% of China's soda ash is produced by state-owned enterprises, China's rise as a soda-ash producing powerhouse is a more a story of the power and efficacy of the government to intervene in the economy. China's domestic soda ash industry enjoys a level of state support that extends well beyond traditional protectionist measures such as high tariffs, which China has been obligated to gradually dismantle with its accession to the World Trade Organization (WTO).

Government-sponsored protection ranges from industry- and firm-specific support to policies of broad sectoral impact such as 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 an indirect subsidy, which negatively impacts not only soda ash but a wide range of U.S. manufacturing sectors, hurts the competitiveness of U.S. exports, and contributes 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 potential banking crisis.

The billions of dollars of support from central, provincial, and local governments are being thrown at inefficient and environmentally-unfriendly enterprises. In effect, state support and financing is actually exacerbating larger problems pervading the rest of China's growing but fragile economy. Most of China's soda ash production is coal-based but, because it does not employ any environmentally-acceptable emissions technologies. Furthermore, China's synthetic producers generate huge quantities of solid waste (an estimated 2.5 million tons last year). Disposal of these wastes, which contain ammonia and sodium chloride, contaminates China's waterways and water supply. Chinese producers do not have to be concerned with complying with environmental laws or regulations. Moreover, since almost all producers are state-owned, profitability incentive and shareholder accountability are oftentimes elusive concepts, and many firms, especially smaller plants propped up by local governments, are simply money-losing vehicles for employment. The rapid expansion of inefficient Chinese production simply exhausts scarce Chinese capital, strains an already fragile banking system, and inefficiently allocates employment towards unproductive sectors.

*U.S. Share Plummets While Chinese Soda Ash Demand Grows at Extraordinary Rates*

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. To put these growth figures in perspective, 2.2 million MT equates to 35% of total U.S. consumption in 2003.

*Planned Capacity Expansions Far Outpace Projected Demand*

While consumption growth is impressive, the Chinese soda ash 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. (To put these figures in perspective, 3.3 million MT equates to 52% 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, much of it financed by subsidized bank lending and indirect state support, will end up being exported at cut-rate prices to third-country markets in Northeast and Southeast Asia.

*Chinese Exports are Eroding U.S. Share in Critical Third-Country Markets*

While penetrating the Chinese market is difficult enough, U.S. exports are facing an increasing competitive threat from Chinese exports in third-country markets in East Asia and Latin America. 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 Asian countries such as Indonesia, Thailand and the Philippines. The trend 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, comprising 37% of total U.S. exports. By 2003, this share had fallen to \$106M, a drop of 44% over 1996 levels, and down to a 21% share 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.

*Addressing Broad Market Access Barriers Is a Challenge*

Many of the government-imposed barriers restricting U.S. exports have a broad sectoral impact and are not directed at soda ash specifically. Given the pervasive nature of Chinese government protection and support of its soda ash industry, the U.S. industry shares the U.S. government's frustration at addressing market access barriers via specific policy prescriptions. Statutory protection, such as import tariffs, is easily quantifiable and addressed. In China's case, however, the 5.5% import tariff, while it does restrict trade is not the most significant barrier facing U.S. exports. Rather, soda ash is impacted by broad protectionist policies such as use of a fixed exchange rate that artificially undervalues the Chinese yuan relative to the U.S. dollar. Undervaluation of the yuan severely impacts all U.S. manufacturing sectors, not just soda ash, by hurting the competitiveness of U.S. export in China and by giving Chinese producers the advantage of a *de facto* 15–40% subsidy when importing to the United States. The U.S. soda ash industry strongly encourages efforts by the Administration and a bipartisan consensus in the U.S. Congress to push China towards market-based exchange rates and, at a minimum, a substantial upward adjustment in the fixed exchange rate. The U.S. industry would also benefit from greater transparency in the application of rule-of-law, a significant reduction in direct and indirect subsidization of industry, and most importantly, a rapid transition to a market-based economy, but it is fully cognizant that these changes are not forthcoming in the near future.

*U.S. Industry Policy Proposal to "Level Playing Field" in Third-Country Markets*

The fact remains that Chinese government officials and their provincial and local counterparts view soda ash as a vehicle for employment tens of thousands of Chinese workers and are unlikely to grant significant access to U.S. soda ash willingly. One area that can be addressed through targeted policy is in China's value-added tax (VAT) export rebate program. China currently offers a partial refund of the 17% VAT paid on soda ash that is exported or included in value-added products such as glass that are exported. China recently reduced the refund amount from about 87% of the total VAT paid down to 76%, primarily for fiscal reasons. The U.S. industry believes that one potential area of compromise rests in the elimination or a further significant reduction in the VAT rebate program for soda ash specifically. Implementing such a measure would: have a strong positive fiscal impact for the Chinese government; have no impact on the 10 million MT and growing domestic Chinese market; and allow U.S. soda ash to compete on a more level-playing field in critical East Asian third markets.

## BRAZIL

Unlike China, Brazil resorts to more overt forms of government intervention to protect inefficient local soda ash production. These measures are easily shown to violate its WTO treaty obligations. Brazil was the fourth largest market for the U.S. soda ash industry in 2003, accounting for 312,000 MT valued at \$44 million. But for more than 15 years, Brazil's sole soda ash producer Alcalis, formerly a state-owned company, has sought numerous and most recently creative ways to keep U.S. soda ash from competing in the Brazilian market on a level playing field. These efforts have included: (1) raising the country's import tariff from 10% to 25%, (2) filing an unsuccessful antidumping complaint, and (3) in its most recent and imaginative protectionist display yet, securing a state-level tax break that favors local production over imports. This would be like the state of Wyoming imposing a sales tax on Brazilian orange juice that is much higher than that imposed on orange juice from the United States.

*Discriminatory ICMS Tax Protects Inefficient Local Soda Ash Producer*

In April 2001, Brazil's State of Rio de Janeiro granted the local producer of soda ash a preferential rate for the Merchandise and Service Circulation Tax (ICMS), which is applied to both imports and domestic products. The ICMS rate for the local producer is 2%, while all other (imported) soda ash faces a 19% ICMS tax in Rio de Janeiro (the rate was increased from 18% in January, 2003) and similar high rates in the rest of Brazil. This 17 percentage point tax differential provides Brazil's sole domestic soda ash producer, Alcalis, a *de facto* subsidy estimated to range between \$16–18 per metric ton. This allows Alcalis to retain market share at the expense of foreign suppliers. The discriminatory ICMS tax provisions flatly violates the WTO's national treatment provisions (GATT 1994, Article III), which specify that internal taxes must be equally applied to domestically-produced and imported goods.

The U.S. industry estimates that the impact of this discriminatory tax is lost exports of up to \$15 million. Furthermore, the discriminatory tax has cost the state of Rio approximately \$5 million in lost tax revenues.

*U.S. Government Assistance is Needed*

The U.S. industry has engaged the U.S. government for assistance since November of 2001. ANSAC and its member companies have met with senior officials in the Office of the United States Trade Representative and Commerce Departments to request that the U.S. government issue a demarche to the Brazilian government, requesting an official explanation and consultations on the matter. Letters encouraging the Administration to support the U.S. industry's efforts have been written to United States Trade Representative Robert Zoellick from the Wyoming Congressional Delegation and Senators Smith and Wyden from the state of Oregon.

The merits of this case bear a strong resemblance to a WTO case brought by the United States last month involving China's discriminatory taxes assessed on semi-conductors. While the industry has also submitted a draft Section 301 petition to the Office of the U.S. Trade Representative, the intention of the U.S. industry is to resolve this matter through bilateral consultations and not via a trade war. After months of efforts, the U.S. government is to issue a demarche to the Government of Brazil, and hopefully consultations are forthcoming.

## SOUTH AFRICA

South Africa presents yet another illustrative case study in how ever-creative forms of government intervention are used to protect favored producers with the aim of shutting U.S. soda ash out of the market. The decline in U.S. exports to South Africa, once one of the largest foreign markets, has been precipitous. This decline coincides with the formation in 1991 of a the politically connected soda ash producer (SAB) now Botash which is jointly owned by the Government of Botswana, the South African mining firms DeBeers and Anglo American, and a consortium of South African banks. In 1990, the year before Botash's precursor was formed, South Africa was the third largest export market for U.S. soda ash with \$27.2M in exports. Last year, exports were \$8.2M, a decline of 70%, pushing South Africa down to the 21st largest export market.

*Evolving Protectionism Impedes Market Access for U.S. Soda Ash*

Like Brazil and China, traditional import tariff protection has lost its efficacy with global trade liberalization. Prior to 1991, U.S. soda ash entered the South African market duty-free. With the formation of Botash's precursor SAB, however, the South African Government temporarily raised tariffs to 10% and had them permanently reinstated in 1994. Even with tariff protection, SAB was faced with bankruptcy and reformed as Botash in 1995. As mandated under its WTO Uruguay Round commitments, however, South Africa was obligated to reduce its soda ash tariff from 10% down to 5.5% by 2004. Nevertheless, Botash was able to obtain a five year standstill agreement keeping the tariff at 10% until January 2000.

Sensing the impending impact of trade liberalization and its competitive pressure, Botash initiated a baseless legal action under South African competition laws, which threatens to shut ANSAC out of the market. As with China and Brazil and numerous other global markets, the motives of protectionism are misguided and myopic. As Botash's only significant competition, removing ANSAC from the market would give Botash monopoly pricing power over its glass, detergent, and other customers. Higher prices would be passed on to South African consumers and price South African glass and detergent exports out of world markets. The impact on South Africa's workforce is further devastating, given that 75,000 South Africans are employed in the domestic glass industry and thousands more in other soda ash-dependent sectors such as detergent production. The Botash soda ash mine, which is actually located in Botswana, employs only 500 workers but presumably few South Africans.

*SACU FTA Negotiations Provide Significant Leverage*

South Africa, along with four neighboring countries that together comprise the South African Customs Union (SACU), is negotiating a free trade agreement with the United States. The United States should not sign free trade agreements with countries that refuse to recognize key aspects of U.S. law and that employ government intervention, including the use of its judicial system, to protect their markets from competition. Therefore, the U.S. industry's goals in U.S.-SACU FTA negotiations are: (1) to achieve an immediate elimination of the 5.5% SACU duty, and (2) to obtain commitments that South African laws not be enforced in a manner that conflicts with U.S. export promotion laws and that their laws aimed at fostering competition not be used to restrict U.S. trade.

## CONCLUSION

In closing, I want to thank you for the opportunity to present the views of ANSAC. The U.S. industry has a global competitive advantage in soda ash production, and you will find no greater supporter of global free trade than ANSAC. With the support of the Wyoming Delegation, U.S. negotiators have accomplished much in bringing down market access barriers worldwide. However, as these barriers have come done significant and, in many ways, more daunting challenges remain. Once again, Mr. Chairman, I want to thank you and the Wyoming Delegation for your steadfast support of the U.S. industry and for giving me the opportunity to speak today.

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PREPARED STATEMENT OF MEREDITH BROADBENT

*Introduction*

Senator Thomas, I appreciate the opportunity to come to this beautiful state and speak to you and American soda ash industry representatives about the Administration's trade strategy for industrial exports and the success and challenges faced by Wyoming's soda ash industry in foreign markets. I also want to express my appre-

ciation for the energy and dedication with which your congressional delegation works with the Administration to achieve a fair playing field internationally for the farmers, workers and industries in Wyoming.

Before I get into specifics on barriers to industrial exports and how President Bush and Ambassador Zoellick are working to break them down, I thought it might be helpful to give you a sense of how trade benefits U.S. industry and the broader economy.

#### *Benefits of Trade for Industrial Products and the Broader Economy*

Economic growth and job creation for American workers are among President Bush's top priorities. Because 95 percent of the world's consumers live outside U.S. borders, the President believes that ensuring that our country can compete globally helps maintain a dynamic and strong economy here at home.

As you may know, U.S. exports accounted for about 25% of U.S. economic growth during the last decade and supported an estimated 12 million American jobs. Jobs supported by U.S. goods exports pay wages that are 13 to 18 percent higher than the U.S. national average. High-tech industry jobs supported by exports have average hourly earnings 34 percent higher than the national figures.

To create more jobs in our country, President Bush believes we need to pursue reinforcing trade initiatives globally, regionally and bilaterally, establishing what Ambassador Zoellick has called "competition for liberalization." Free trade invigorates the global economy, leading to higher living standards and incomes in the United States and overseas. As our trading partners become more prosperous, their growing middle classes buy more of America's high-quality exports, in turn spurring U.S. economic growth. While consumption for soda ash and other key inputs to consumer products is stagnant in the United States, in developing countries demand is burgeoning.

As the United States and the world become increasingly interdependent with respect to international trade, U.S. soda ash producers have an advantage. A leading American exporting industry for over 20 years, U.S. soda ash producers are more familiar than many other U.S. industries with both the challenges and the opportunities presented by changing global markets. While the U.S. chemical sector in general faces strong import competition, the soda ash industry continues to enjoy a trade surplus. The unique natural deposits in America give U.S. production of high-quality soda ash a solid edge in international markets. Last year, exports of soda ash were valued at \$515 million, making soda ash producers the largest U.S. exporters of inorganic chemicals. We want to continue to work with you to open markets for soda ash and all U.S. exports.

#### *Status of U.S. Trade with China*

An issue we know that is of growing concern to U.S. soda ash exporters is the growth of production in China. To put the changes in China in context, by the most conservative measure, China is now the world's seventh largest economy. China, along with the United States, has served in recent years as one of the world economy's few engines of growth. Total U.S.-China trade in 2003 topped \$180 billion, with imports from China exceeding U.S. exports by \$124 billion. China has become our second largest source of imports, with most of the increase displacing imports from other sources, including economies in Asia and Latin America.

China's economic expansion means it has become a massive consumer, rivaling the United States in its consumption of oil, steel, cement and dozens of other commodities. China is already the sixth largest market for U.S. exports, and it is currently the fastest growing export market for U.S. goods. While U.S. exports to the world decreased by 9 percent over the last three years, exports to China rocketed up by 76 percent. China is now a major importer of U.S. manufactured exports, such as electrical machinery and numerous types of components and equipment. China is also a major importer of agricultural products from the United States, and U.S. service suppliers in many sectors have been able to increase their share of China's market.

While China continues to enjoy wide access to the U.S. market, we are also working to ensure that China lives up to its commitments in the provision of market access to the Chinese market. With 1.3 billion people who are just now beginning to be able to buy consumer goods such as glassware, autos and detergents, China is an essential current and future market for U.S. soda ash producers and, for that matter, all U.S. manufacturers.

Since China's WTO accession, we have been working hard to make sure China plays by fair, consistent international rules. We have constantly engaged China, at all levels of government, in an effort to ensure that China lives up to its WTO obligations. When bilateral engagement does not produce results, we are prepared to



take other action. For example, the United States on March 18, brought its first case against China in the WTO, against a Chinese tax policy for integrated circuits which discriminates against U.S. products and distorts international investment in the integrated circuit sector.

While the United States continues to export soda ash to China's expanding market, the growth of soda ash production there and China's increasing exports to third markets raise industry concerns about increased competition. Together with the Department of Commerce, we are gathering information on potential subsidies being provided to Chinese soda ash producers, including reports of preferential financing for capacity expansion. As we obtain further information on whether preferential lending is being provided to industries in China, we will work with the American Natural Soda Ash Corporation, "ANSAC," and concerned members of Congress to identify steps that can be taken to level the playing field.

#### *U.S. Agenda to Open Markets in the WTO*

On the multilateral front, the United States has played a critical leadership role in launching, advancing and re-energizing the Doha Development Agenda, the global trade negotiations at the WTO.

Recognizing the opportunity offered by the Doha negotiations to significantly liberalize trade, the United States was the only country to put forward ambitious proposals in all three core areas of the negotiations. We called for the elimination of global tariffs on consumer and industrial goods by 2015, substantial cuts in farm tariffs and trade-distorting subsidies, and broad opening of services markets. These proposals reflect extensive consultations with Congress and the private sector.

The Cancun WTO meeting in September broke down because some countries wanted to pocket our offers on agriculture, goods and services without opening their own protected markets. That's a position we will not accept. But unlike the breakdown in Seattle in 1999, the problems in Cancun did not result in a total collapse. After a hiatus of seven months, there are signs that many countries are now prepared to negotiate more seriously and WTO members have taken recent steps to get talks back on track. A majority are looking at the draft "Derbez" text developed at Cancun as a useful basis upon which to develop an agreed framework by July that could guide negotiations.

At April discussions in Geneva, Switzerland, we found a more cooperative atmosphere, although many hurdles remain before we are likely to see much progress in the core market access areas: agriculture, services and industrial goods.

A key element for the United States is an agreement to launch trade facilitation negotiations which would aim to address—through new binding commitments—Customs procedural issues. Onerous and burdensome Customs procedures in other countries are often a crippling hindrance for U.S. exporters, particularly small and medium-sized enterprises that lack the resources to deal with endless red tape.

#### *Tariffs in the Doha Negotiations*

The United States has been pursuing an ambitious tariff-cutting formula for the Doha negotiations, complemented by sectoral agreements. We believe we appreciate the broad range of impediments the soda ash industry is facing in multiple markets around the world, and have factored these concerns into our objectives and strategy.

In addition to the formula, we agree that sectoral zero-tariff initiatives need to be an integral part of the negotiations, perhaps using a "critical mass" approach to define participation—as in the successful Information Technology Agreement.

You may know that, in the Uruguay Round, we successfully negotiated the Chemical Tariff Harmonization Agreement (CTHA). Under this sectoral agreement, signatory countries agreed to bring their tariff levels down to specified rates. The rate for soda ash is 5.5%—which is the rate for all products in Harmonized System chapter 28. (Note: soda ash is 2836.20.)

In 1994, when the Uruguay Round was concluded, CTHA signatories accounted for 70% of global chemical trade. Since then, CTHA has been a priority request in all of our WTO accession negotiations. Today, more than 40 countries apply the CTHA rates.

Moreover, while we were not successful in the Uruguay Round in getting Brazil to agree to the CTHA, we were able to convince them to commit to a bound tariff rate of 15% for soda ash specifically. Brazil is always free to apply a lower rate, but this binding provides certainty that Brazil cannot raise its soda ash rate above 15%. We negotiated this agreement at the express request of the soda ash industry, which was then faced with a situation in which Brazil was unpredictably raising and lowering its tariffs on soda ash.

The U.S. chemical industry, working with the International Coalition of Chemical Associations (ICCA) which includes representatives from the United States, Europe,

Japan, Canada, Mexico, Australia, and Mercosur is advocating that chemical tariffs, including soda ash be brought to zero in key markets through the Doha negotiations.

Under your leadership, zero tariffs are an objective that was specifically endorsed by Congress, in the Uruguay Round implementing legislation. A zero-for-zero agreement in the Doha Round would have the effect of eliminating duties in key markets for U.S. exporters of soda ash, including China 5.5%, Korea 8%, Indonesia 5%, Taiwan 5%, Brazil 10%, South Africa 5.5%, the European Union 5.5%, and India 20%.

#### *Non-tariff Barriers*

Many industries have told us that foreign non-tariff barriers are as important as tariff barriers.

There are several modalities under consideration for the NTB negotiations: request/offer to take care of individual concerns, a “horizontal” approach to cover issues that affect a broad range of industries, and a “vertical” approach to deal with NTBs affecting a single industry. The general view among all WTO Members last year was that we should maintain flexibility to use whichever of the three methods will yield the best results.

In late 2002, the U.S. Government issued a Federal Register announcement asking for public comments on Doha priorities. We received several hundred responses from U.S. industries listing non-tariff barriers they are interested in having the government pursue through the Doha negotiations.

To pursue NTBs successfully, we need very detailed information on the barriers and on what solutions we should pursue. We have been working closely with industry to prioritize their requests and ensure we have sufficient information to pursue them effectively, to identify possible allies on individual barriers, and determine the best way to pursue the requests.

We have not received any submissions from U.S. industry regarding soda ash NTBs.

If there are barriers out there, the U.S. Government ought to pursue them as part of the Doha negotiations—for example if there are countries where you seek the elimination of licensing requirements (which I understand is an issue for the soda ash industry in Brazil, China and elsewhere), we want to incorporate them into our negotiating objectives.

We have also been talking to the American Chemistry Council and other advisors about their interest in pursuing chemical NTBs through the vertical approach. Some NTB issues that the chemical industry broadly is interested in include regulatory procedures and protection of confidential business data. We would be interested to know if these are important issues for the soda ash industry.

The chemical industry has also identified five customs issues—common data elements, risk management, customs integrity, customs-business partnerships, and smuggling—as important priorities. The launch of trade facilitation negotiations could help to address such issues multilaterally.

#### *Other Doha Round Issues*

An additional area of concern for U.S. exporters in the Doha Round has been the increased use and possible misuse of antidumping and countervailing duty remedies by other countries. In the first half of 2003, India was tied for first with 21 new AD measures and Thailand was a close third with 20 new AD measures; China and Brazil are also major users of AD. By contrast, the U.S. imposed only four new AD measures in the same period.

The Doha Ministerial Declaration provides for a two-phase process for the rules negotiations for antidumping and subsidies. In the first phase, parties may identify provisions in the antidumping and subsidies agreements that they would like to clarify or improve. A core issue for the United States is transparency and due process in antidumping proceedings to ensure U.S. exporters are treated fairly in foreign antidumping cases. The pace of the rules negotiations will obviously be tied to moving forward on the full range of issues in the Doha agenda. We welcome any comments you may have about your experience with AD regimes in other countries and suggestions for improving rules on procedures for unfair trade remedies.

#### *Compliance and Enforcement Issues*

While we are pressing ahead in the Doha round to improve market access around the world for U.S. exporters, we are also working to ensure that current WTO rules and agreements are enforced. The soda ash industry has been very active in identifying problem areas for ANSAC and we have been actively working with you to resolve foreign unfair trade practices.

One success story is the case where ANSAC was blocked from exporting to India after an accusation of anti competitive practices. After close consultations with you

and others in Congress, Ambassador Zoellick intervened repeatedly with the Indian government to ensure that U.S. exporters were treated in a transparent and fair manner. As a result, the allegation was overturned by the Indian Supreme Court in 2002. U.S. soda ash exporters have since had the opportunity to sell to this important growing market restored.

Another key issue still in play is a state excise tax imposed on imported soda ash in Brazil, giving an advantage to the sole Brazilian producer and discriminating against imports from the United States and other countries. Deputy USTR Peter Allgeier raised this issue with Brazil's trade minister during their meeting in Brazil in October 2003. The Brazilian federal government has suggested that this state tax issue would be resolved by pending Brazilian tax reform, but that is a slow process. On April 8, we sent a detailed official presentation to the U.S. Embassy in Brasilia about the effects of the tax and our concerns about its consistency with Brazil's WTO obligations. U.S. Embassy officials will use this presentation to press our concerns about this tax with Brazilian government officials. We will report to you as soon as we hear the outcome of the meeting. We have reviewed the draft Section 301 petition your industry submitted on the excise tax in October 2003 and will continue to work with you to take the most appropriate and effective measures to ensure optimal market access for the U.S. soda ash industry.

#### *Free Trade Agreements*

In bilateral negotiations, USTR is moving forward to liberalize trade by negotiating free trade agreements with a broad range of countries so that U.S. exporters can reap the benefits of more open markets more immediately. The recently completed U.S. Australia Free Trade Agreement contained an important win—immediate duty-free treatment for U.S. exports of soda ash. I commend you, Senator Thomas and Representative Cubin, for your role in raising the important issue of Australian tariffs on soda ash in a timely way so that USTR could negotiate to eliminate them in the FTA. The January 20, 2004 letter from the Wyoming Congressional delegation and Oregon Senatorial delegation was key to drawing USTR's attention to the export potential for soda ash in Australia's market and how increased exports will help support the U.S. jobs related to the soda ash industry.

While the tariff on soda ash in Australia was not high (5 %), Australia grants China a preferential benefit for developing countries that cuts the duty for Chinese exports to Australia in half. Under the FTA U.S. exporters will have an important tariff advantage over Chinese exports to Australia and an enhanced opportunity to participate in the boom being enjoyed by the Australian wine and beer industry.

Regionally in the Free Trade Area of the Americas (FTAA), our position is that all tariffs should be subject to negotiation and that a final agreement should achieve progress in accessing markets in Brazil and Argentina in particular. Negotiations have also begun on a free trade agreement with SACU—the Southern Africa Customs Union. An agreement will help to level the playing field in areas where U.S. exporters are disadvantaged by the European Union's free trade agreement with South Africa. External chemical tariffs in SACU are high—9%—and a regional FTA will dramatically lower them. This could establish an advantage to U.S. soda ash exporters vis-a-vis exports to SACU from Kenya where new production is planned. Moreover, the SACU free trade agreement is an opportunity to address other problems ANSAC may be facing in southern Africa, including possible discriminatory treatment of ANSAC based on South African competition policy concerns.

#### *Conclusion*

As we move forward in the WTO, FTAA, and other bilateral and sub-regional talks, we welcome and encourage your input. The fact that American soda ash exporters have ventured with great success into so many international markets over the years means you have a wealth of experience to draw on. We will rely on that experience as we work to ensure increased opportunities for American industries in international trade.

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#### PREPARED STATEMENT OF HON. BARBARA CUBIN

Chairman Thomas, thank you for inviting me to testify before the Subcommittee on International Trade in regard to the incredibly important issue of international trade and its impacts on the U.S. Soda Ash Industry, and, more specifically, the state of Wyoming.

The U.S. Soda Ash industry, which until recently was the largest in the world, has the bulk of its production through four plants in the great state of Wyoming. The total estimated value of the industry is around \$800 million.

With the nation's economy gaining momentum, we are beginning to see a very bright economic outlook for the United States. Nearly one million jobs have been created since August 2003. Over the past year, the unemployment rate has fallen in 45 of the 50 states and the unemployment rate, at 5.7 percent, is lower than the average of the 70s, 80s and 90s.

These are all very rosy numbers, but I ask you what those numbers mean to the seven hundred employees of the Wyoming Soda Ash industry who lost their jobs since 1997? These economic numbers don't help them put food on the table. They don't help them buy new pick up trucks or homes. They don't put their kids through college and they don't help them sleep at night.

It is my prime responsibility as Wyoming's lone Representative to make sure every person in Wyoming who wants a good-paying job can find one so they can put food on the table, buy a home with a yard, and raise a family in comfort. People live in this state so they can hike and hunt with their kids, away from the rat race of the big cities, and so they can avoid a heavy-handed state government and high state taxes. Wyoming is blessed with an incredible quality of life, cheap cost of living, and people who treat one another with respect. In Wyoming, a stranded motorist won't be stranded long before they are given a lift to the next town.

In carrying out my responsibility to make sure every Wyoming person has access to a good-paying job, I work to ensure for each industry in the state a level playing field, and even an advantage if possible, when competing with our neighbors in the U.S. and around the world. This includes building jobs in the energy, trona, agriculture, timber and tourism industries, to name just a few.

We were all chagrined when communist China supplanted the U.S. as the world's largest soda ash producer. China remains a major producer of synthetic soda ash, and is the largest competitor of the U.S. in Asian soda ash markets.

This past year, China announced it planned to increase capacity at its Weifang soda ash plant by 600,000 tons this year, and to construct another new plant that will produce 900,000 tons when completed. It is distressing indeed to consider this level of production when we know how the Chinese exploit cheap labor and almost completely disregard even the most minimal environmental standards.

Add to this the fact that the market for domestic soda ash has been stagnant for nearly 20 years and that no one anticipates much growth for the flat glass or glass packaging that will grow the domestic market. We must find this needed growth in places like Asia and Australia, and that means we must take on the Chinese head on, and with every boost our government can give the Soda Ash industry.

In that vein, I want to fight every battle I can to provide the Wyoming Soda Ash industry with a lower tax burden and royalty rate and more affordable energy costs.

These are essentials to allow all Wyoming Soda Ash producers to compete on a level playing field with the likes of China, India and synthetic producers around the world, and in turn create jobs for the people of Wyoming.

#### *Lower Tax Burden and Royalty Rate*

The U.S. Soda Ash industry pays in the ballpark of \$100 million in taxes to federal, state and local governments. Due to the growth of China's Soda Ash exports, it is essential that we provide temporary relief to the Soda Ash industry in the form of royalty rate reduction.

As you know, I have developed a proposal to achieve this royalty rate reduction from 6% to 2% in order to allow the industry to begin to see increased export growth and competitiveness in the emerging world market. As Chairman of the Energy and Minerals Subcommittee, I look forward to continuing these efforts at the Capitol to effect this policy change whether it be administratively or through legislation.

#### *More Affordable Energy Costs*

Finally, with regards to more affordable energy costs, we must continue efforts to pass a balanced energy bill that will provide greater access for production of energy on federal lands and increase and diversify our nation's energy portfolio.

The energy bill contains several stand alone bills I introduced and attached, which will do just that:

- A Uranium sales prohibition which will slow the amount of government uranium sold on the market, help spot prices recover strongly, and make nuclear industry more affordable for those dependent upon it,
- Coal leasing amendments which will maximize efficient production of coal in the state, prevent premature closure of mines, ease the post Sept. 11th bonding crisis in the industry, and make coal more affordable and competitive with natural gas,

- Rights-of-way legislation that will help to facilitate the deployment of critical pipeline and telecommunications infrastructure to states made up largely of federal lands, such as Wyoming, and most every state in the West.
- Increase the chargeability limits of coalbed methane leases with regards to acreages held by production, ensuring an efficient and orderly production of the coalbed methane.

Certainly, the current high energy prices have benefitted the state of Wyoming and helped to create the \$1.2 billion surplus we experienced in the past year. However, while we all would like to see healthy energy prices and the money they pump in to our state treasury, it cannot be at the expense of all the industries in Wyoming and America who end up stuck with the bill.

One cannot expect the Soda Ash industry, which has faced a 150% increase in natural gas prices over the past four years, to maintain profitability when operating costs continue to rise. I am committed to finding a way to enact an energy bill similar to the one passed by the House of Representatives last fall. That bill has been stymied by obstructionist Democrats in the Senate who would rather play politics in a Presidential election year than reduce energy and operating costs for industries reliant on natural gas and help keep American jobs from being sent overseas.

Senator Thomas, I look forward to fighting vigorously on each of these fronts with both you and Senator Enzi to provide meaningful help to the Soda Ash industry and its 2,500 workers in our state.

I would again like to thank you for the opportunity to present this testimony on behalf of the hard working people of Wyoming as we work to open new markets for the Soda Ash industry and create the good-paying jobs that will help our communities grow and keep our children, our most precious resource, from moving to Salt Lake and Denver.

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PREPARED STATEMENT OF DENNIS S. KOSTICK

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to present, on behalf of the U.S. Geological Survey (USGS), this statement regarding the history and outlook of the soda ash industry.

This year marks a significant milestone in the history of the USGS. On March 3, 2004, we celebrated the 125th anniversary of the creation of the USGS by the Organic Act enacted by the 45th Congress. The minerals information arm of USGS has collected and analyzed data and provided economic evaluation of mineral commodities since that time. The mining, quarrying, and associated primary mineral product industries represent a significant component of industrial production in the United States. In fact, the Index of Industrial Production, compiled by the Federal Reserve Board to measure the health of the U.S. economy, currently assigns a weight of about 15 percent of the index to these minerals related industries. For the minerals and mining industry components of the Index of Industrial Production, the Federal Reserve Board relies on information compiled by the USGS Mineral Resources Program.

Today, USGS mineral commodity and country specialists work with government, industry, and university representatives to promote domestic and international partnerships. In this anniversary year, we celebrate the traditions that have shaped us, the mission that has guided us, the people who have made the science great, and the technology that will lead us into the future.

*What is soda ash?*

Although largely unrecognized, soda ash is used in many consumer products used every day by most Americans. These products include glass, detergents, and baking soda. Wyoming is considered the soda ash capital of the world. Not unlike the automotive, steel, and timber industries, which have encountered periods of economic difficulties and trade imbalances, the U.S. soda ash industry is now engaged in a series of competitive challenges within the world economy.

Soda ash is not new. Early Egyptians used it for making ornamental glass. Soda ash is an alkali that was first derived by burning certain types of wood and seaweed and leaching the ashes to extract the potassium and soda residues. To a *chemist*, soda ash is known as "sodium carbonate"; composed of the elements sodium, carbon, and oxygen. To a *geologist*, it is known as the refined product derived from the sedimentary mineral "trona," which is composed of sodium carbonate, sodium bicarbonate, and water. While to most, soda ash may not have the same universal name recognition as coal, sand, clay, or salt, soda ash is a household word here in Wyoming.

In 2003, soda ash was the 11th largest chemical in terms of production of all domestic inorganic and organic chemicals, excluding petrochemical feedstocks for ex-

ample crude oil, natural gas or their derivatives. Although soda ash represented only 2 percent of the total estimated \$38 billion U.S. nonfuel mineral industry in 2003, its use in many diversified products contributes substantially to the gross domestic product of the United States. For example, soda ash is used to make flat glass and fiberglass, which are both used by the domestic automotive and construction industries. The Federal Reserve Board uses monthly soda ash production statistics, canvassed by the USGS to develop monthly industrial production economic indicators for the U.S. economy.

#### *History*

The U.S. soda ash industry shared in the industrial progress of the 20th Century as it increased its production capabilities beginning in the mid-1880s with the construction of the first synthetic soda ash plant using the Solvay synthetic production process in the United States at Syracuse, New York. Although limited production of natural soda ash from soda deposits in California and Nevada occurred during this time, synthetic soda ash production increased across the United States. Construction and operation of additional synthetic soda ash plants resulted in less dependence on soda ash imports from England, Germany, and Japan. To keep pace with growing demand, 10 soda ash companies operated 12 plants in the United States during World War I; 7 were synthetic, 4 were natural, and 1 was a pulp and paper plant that produced soda ash by an alternative chemical process.

At the beginning of World War II, virtually all of the major soda ash consuming industries in the United States required more soda ash to meet the higher demand required by the war effort. To meet the surge in demand, domestic soda ash capacity was expanded by building simple, temporary plants to produce soda ash from natural sources rather than constructing large, expensive Solvay plants. Natural production was also increased in California at Searles Lake and at Owens Lake. Some people advocated developing the trona deposit that was found in 1939 in Green River, Wyoming, to help resolve the shortage. The Green River trona deposit is now known to be the world's largest underground trona deposit.

By the end of World War II, the production capacity of the U.S. soda ash industry was 42 percent greater than it was prior to the war. Post-war demand for soda ash remained strong as the military uses for the commodity began reverting to civilian uses. Economic prosperity in the United States and the economic recovery and reconstruction of Europe and Japan caused world soda ash demand to increase. In 1947 the first trona deposit would be mined in Wyoming by the Westvaco Chemical Corporation; the forerunner of FMC Corporation.

In the early 1950s, the modern day soda ash industry began in Wyoming. During the next 3 decades, four more natural soda ash facilities would be constructed in Wyoming, utilizing the most cost-effective and safest mining and processing technology in the world. Natural soda ash from Wyoming was more competitive than the same product made by many of the aging synthetic soda ash plants elsewhere in the country and the world.

In the 1970s, the synthetic soda ash industry in the United States began to decline. Of the nine plants that were in operation in 1970, eight closed by the end of the decade because of higher energy costs, the costs of anti-pollution equipment, and competition from the natural soda ash producers in California and Wyoming. In 1986, 5 years after the 100th anniversary of being the first synthetic soda ash plant constructed in the United States, the last synthetic soda ash plant closed in Syracuse, New York.

#### *World production*

World soda ash production for 2003 was estimated at 38 million metric tons. Of the 31 countries that produce natural and synthetic soda ash, the United States was the world's largest producer, accounting for 28 percent of total world output. Only the United States, Botswana, China, Ethiopia, and Kenya produce soda ash from natural sources—the remainder manufacture soda ash through various chemical processes, primarily the Solvay synthetic soda ash production process. Total world natural soda ash production represented about 31 percent of combined (both natural and synthetic) world soda ash production. The five leading producers were the United States, China, Russia, India, and Germany, accounting for 71 percent of world production in 2003.

#### *The industry*

The U.S. soda ash industry comprises four companies in Wyoming operating four plants (a fifth plant is mothballed), one company in California with one plant, and one plant in Colorado owned by one of the Wyoming producers. The five U.S. producers have a combined annual nameplate capacity (designed production capacity) of 14.5 million tons (16 million short tons). Sodium bicarbonate, sodium sulfite, so-

dium tripolyphosphate, and chemical caustic soda were manufactured as co products at a few of the Wyoming soda ash plants. Sodium bicarbonate was produced as a co product at the Colorado operation. The total estimated value of domestic soda ash produced in 2003 was \$750 million.

#### *Domestic consumption*

Soda ash is considered to be a mature commodity with stable end use markets that tend to parallel population and economic trends in developed nations. Approximately 60 percent of all U.S. produced soda ash is consumed domestically; the remaining 40 percent is exported. Domestic soda ash consumption has been affected by a reduced demand in the consuming sectors that were prompted by changing preferences by consumers. One example of this trend began in the mid-1980s when changes in the domestic markets adversely affected the U.S. soda ash industry. The glass container industry faced growing competition in the packaging markets. Cheaper and more portable plastic bottles slowly eroded dependence upon glass containers, such as beverage bottle and certain food container products. Energy shortages and costs also impacted the soda ash industry as they had the glass industry, because large amounts of fuel are required to melt the raw materials. Over-capacity, declining profitability, and a shift in consumer preferences toward plastics, were responsible for the closure of 30 glass container plants east of the Mississippi River by 1986. The closure of the glass plants also meant a reduction in soda ash consumption.

Solid waste recycling programs led to the increasing use of recycled glass, known as cullet, and further reduced soda ash consumption. Concerns about air and water pollution and landfill growth affected the next two largest soda ash markets—chemicals and detergents. Certain soda ash-based chemicals used in powdered detergents were determined to contribute to pollution, so detergent manufacturers reformulated their detergents to make compact and super-concentrated products and liquid detergents, which did not use soda ash.

Domestic apparent consumption of soda ash appears to have been flat for the past 30 years, fluctuating between 6.1 million metric tons to 6.6 million tons. However, with an associated population increase, the per capita annual consumption of soda ash has declined significantly from about 30 kilograms per person (66 pounds per person) in 1970 to 21 kilograms per person (46 pounds per person) in 2003.

#### *Exports*

The export market is considered promising for the U.S. soda ash industry. Competition from the lower priced U.S. product ultimately has caused several inefficient, uneconomic synthetic soda ash plants to close in Asia, Europe, and South America. Most of these plants were small in comparison to the large, million-plus ton-facilities in Wyoming. In the past quarter century, several former foreign soda ash competitors and consumers have become joint-venture partners in the U.S. soda ash industry. In exchange for permanently closing some of their facilities, these partners export large quantities of high-purity Wyoming soda ash to their countries.

Although U.S. soda ash exports were slowly increasing by the early 1980s, it was not until the formation of the industry's export association, the American Natural Soda Ash Corporation (ANSAC) in 1983, that a concerted effort to maximize export opportunities began. Through its efforts, the United States became the largest exporter of soda ash in the world, exporting a record high 4.45 million metric tons in 2003.

Based on export data from the U.S. Census Bureau, the percent distribution of U.S. soda ash exports to 41 countries, on a regional basis in 2003 were Asia, 35 percent; South America and North America, 22 percent each; Europe, 12 percent; Middle East, 4 percent; Oceania, 3 percent; Africa, 2 percent; and Central America and the Caribbean, less than 1 percent each. The ten leading nations for U.S. soda ash exports in 2003 were Mexico (13 percent), Canada and Japan (8 percent each), Brazil (7 percent), China (6 percent), Belgium, Indonesia, and the Republic of Korea (5 percent each); and Chile and Argentina (4 percent each). These countries represented 65 percent of total U.S. exports.

#### *Outlook*

The U.S. soda ash industry is now the second largest soda ash-producing nation in the world. In 2003, China overtook the United States' lead as the number one producer. With the world's largest deposits, the lowest production costs, and the most efficient infrastructure to transport the product to ports, the United States is nevertheless competing with a rival that has been rapidly expanding its industry with intent to promote additional exports to other Asian markets. Although China exports about one-fourth of what the United States ships, it has succeeded in ex-

porting about 7 percent of its soda ash to the Western Hemisphere in 2002, including about 400 tons to the United States.

The average annual value of soda ash in 2003 was \$65.21 per short ton, the lowest value since 1986. The total U.S. soda ash consumption was also at its lowest since 1986. Although production in 2003 was the second highest on record and exports were at an all-time high, the Free Alongside Ship value was \$115.61 per metric ton (\$104.88 per short ton), the lowest value since 1985 when it was \$115.81 per metric ton (\$105.06 per short ton).

Despite industry consolidation during the past few years, there are still approximately 3 million short tons of excess nameplate capacity (designed production capacity) that are idle in the United States. Although these plants were expensive to construct, they are considered too large to permanently close, which is why they remain idle until such time as market conditions improve to justify bringing them back into service.

Rising energy costs, especially for natural gas, have had an adverse affect on the Wyoming soda ash industry. Aside from the higher energy costs associated with soda ash production, fuel costs also have risen in the railroad and ocean transportation sectors that affect the delivered price of soda ash to distant markets.

The years ahead will be challenging for the U.S. soda ash industry. Declining demand and global competition are obstacles to a thriving domestic soda ash industry. In 2004, the major issues confronting the U.S. soda ash industry include the sale of the California soda ash producer and its departure from the American Natural Soda Ash Corporation (ANSAC), and the continued competition from China in the Far East markets.

Mr. Chairman, this concludes my statement. I am happy to respond to any questions that you might have.

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PREPARED STATEMENT OF MONTE MORLOCK

Senator Thomas, Honorable members of this committee:

I am Monte Morlock, President of the United Steelworkers of America, Local Union 13214. I am the elected representative of 650 miners and production workers at the FMC Wyoming Corp. mine and plant in Westvaco, WY. Along with the 650 workers I represent there are an additional 400 members of the Steelworkers at the General Chemical Soda Ash Partners mine and plant about 3 miles from our plant and another 800 employees at two other multinational corporations in the trona patch..

I am here to talk about the impact of foreign soda ash production on people in Sweetwater County.

The United States accounts for 30 percent of the world's supply of soda ash. That includes natural and synthetic soda ash. About 90 percent of the natural soda ash in the world is produced in Wyoming.

China is now the top contributor to our national trade deficit. We buy more than \$5 worth of goods from China for every \$1 we sell, and we ran an \$83 billion deficit with China last year. Since Congress granted China Permanent Normal Trade Relations (PNTR) status and China joined the WTO, the U.S. deficit with China has grown more than 20 percent, by over \$14 billion.

In Asian soda ash markets China is our largest competitor. The United States is no longer the world's leading producer of soda ash. China is expanding to other markets across the globe. They have recently gone into markets in South America and Latin America. Nearly all of China's soda ash production is synthetic and is considered to be highly polluting due to lax pollution laws in China.

We are concerned that United States trade policies have cost American jobs. In the past three years we have lost approximately 400 jobs at the FMC plant and another 200 at General Chemical. I'm sure that you would see similar results at the other companies mining ore in the trona patch. These are highly paid, quality jobs that contribute substantially to the economy of southwestern Wyoming as a region and the state as a whole. Because of cheap labor costs, lax pollution laws and lower transportation costs China's production will put downward pressure on our wages and working conditions. It will erode the ability of the State and Federal government to protect public health and the environment. Public services are diminished by a loss of the tax base.

Instead of bringing prosperity to workers in developed and less developed countries, China's expansion into our markets, and our inability to get into their markets will spawn a race to the bottom in which companies seek out the cheapest labor, weaker environmental laws and fewer workers' rights. As a result we will find ourselves working longer hours in unsafe and unhealthy conditions for lower pay.



Our difficulties in competing with China arises largely because of the transportation costs for moving Soda Ash out of southwest Wyoming. We have heard figures that indicate transportation costs contribute up to 50% of cost of a ton of soda ash. It is undoubtedly the single largest expense producers must bear in getting the product to market.

There is a serious lack of competitive access in the rail industry here in southwest Wyoming. Even where there is competition the producers are required to negotiate for rail service on the entire length of route rather than for individual segments. This unfair monopoly of rail service hinders production and stifles the competitiveness and growth of the soda ash industry. In so doing it threatens the local and state economy, the worker's standard of living, and finally, services to the community provided by state and local governments through the reduction of their tax base. One solution to this problem is currently before Congress. Senator Burns has sponsored legislation that would bring greater competition to the rail transport system. We strongly urge its adoption and ask your support of that legislation.

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PREPARED STATEMENT OF JAMES PEARCE

*Overview*

Mr. Chairman, my name is Jim Pearce. I am the Manufacturing Director and Resident Manager of the FMC Corporation Alkali Chemicals facility in Green River Wyoming. I am testifying today on behalf of the Trona Minerals Committee of the Wyoming Mining Association, comprised of the four soda ash producers in Southwest Wyoming. In addition to FMC Wyoming, these include OCI Wyoming LP, General Chemical, and Solvay Chemicals, Inc. Together we account for over 90% of the domestic production of soda ash, for almost 2300 jobs in southwest Wyoming, and for an over \$500 million surplus to the overall U.S. balance of trade.

I would like to begin by thanking you, Senator Thomas, for your leadership in eliminating trade barriers and in opening new international markets for Wyoming soda ash. Without your leadership, and that of Senator Enzi and Congresswoman Cubin, Wyoming's natural soda ash would not be the competitive force it is in the world today. We also appreciate the dedication of this administration to forging new trade agreements such as the most recent Free Trade Agreement with Australia that eliminates duties on soda ash. We urge prompt Congressional approval.

But in spite of the significant advances in eliminating barriers to U.S. soda ash export, the challenges to sustaining our global leadership are increasing. We thank you for holding this hearing today which allows us to discuss how we can best prepare to meet them.

Export growth means job growth for Southwest Wyoming. And, our industry is committed to increasing its share of the world's growing demand for soda ash; indeed we must, if we are to remain viable. Since the early 1980's domestic demand for soda ash has remained constant at approximately 7 million tons per year, and there remains no foreseeable growth in critical U.S. markets for flat glass or glass packaging that will lead to future growth. Thus the prospects for growth in our industry hinge on growing our markets offshore.

To put in perspective the challenge before us, in the fifteen years between 1982 and 1997, this industry enjoyed a steady and significant growth in exports. Just in the five years between 1992 and 1997, export volume grew 100%. But in the years since 1997, export growth has been marginal. Exports in 2003 were only 4% above their 1997 levels. We are not satisfied with the current rate of export growth, nor should we be. The developing economies of China, Southeast Asia, Latin America and Africa are growing, and so too should demand for a U.S. made product from a vast mineral reserve natural and unique to this state.

However, Mr. Chairman, as you well know, we are not alone in competing for these new markets. As recently as 1989, China imported over a 1 million ton per year of soda ash.

By next year, we expect them to be a 1.5 million ton net exporter. Moreover, China has now become the world's largest producer of soda ash, though hardly its most efficient. A growing number of inefficient, state owned and state supported Chinese producers have added soda ash to their growing list of manufacturing exports and are flooding international markets with low cost material. This, in spite of the fact that their own synthetic production facilities are energy intensive and their environmental and worker safety standards are dismal by our standards.

But like it or not, China is a competitive reality, and Wyoming soda ash producers have to do everything we can to reduce our costs in order to effectively compete. We remain the most efficient suppliers of soda ash in the world. But we need to continually look at our cost structure, both the costs we control, and those controlled

by others, in order to sustain this leadership in the years ahead. If we are to maintain this industry's global leadership role we must partner with federal, state and local governments, and our critical energy and transportation suppliers in new cost sensitive relationships that recognize our mutual dependence on one another.

#### *Industry Cost Reduction Initiatives*

Our employees are already active partners in this effort. Over the last decade, U.S. soda ash producers have engaged in aggressive measures to maintain our global competitiveness. Restructuring within the U.S. industry has entailed continuing efficiency initiatives that have dramatically enhanced industry productivity. You will hear one perspective on this from the Steelworkers Local President at FMC. I will say that our goal as managers is first and foremost to identify those ways we can be more efficient without sacrificing worker safety or environmental standards.

Unfortunately, this industry rationalization and restructuring has also come at a significant cost to Southwest Wyoming and the state economy. Since 1997, employment in the Wyoming soda ash industry has declined 24%, from a high of 3,000 well paying jobs down to 2,300 at the beginning of this year, though we are producing similar volumes of product. This employment decline has particularly impacted the tax base and economy of Southwest Wyoming. Only the current boom in the state's energy production has served to partially mitigate and mask its negative impact on our region's economy.

Because of the continuing and aggressive steps taken by industry managers to reduce fixed costs, improve operational efficiencies and even curtail excess capacity, productivity of the industry has increased. But the combination of spiraling structural costs (employee health and safety, pensions and benefits, environmental protections, etc.), and the dramatic increases in energy and transportation costs, when coupled with intensely competitive international markets, have caused industry profitability to decline precipitously from 15% in 1997 to near zero today. This would be troublesome for any business, but particularly one that demands significant capital to reinvest in its business. As evidence of an increasingly competitive global market, the overall value of U.S. soda ash has steadily declined from \$77 per ton in 1997 to \$65 per ton today.

Others on this panel will discuss specific tariff and non-tariff trade barriers to U.S. soda ash export growth and the welcome steps being taken by this administration to reduce them in Brazil, China and India. The Wyoming Congressional delegation has been a strong and consistent advocate for the U.S. soda ash industry, exposing unfair international trade practices and suggesting ways the playing field can be leveled.

For the remainder of my testimony I would like to address three areas of spiraling cost increases that erode our competitiveness. We continue to look for every way to gain greater efficiencies. But we will not do so at the expense of the health and safety of our employees, or the environment. We believe we have reached the point of no return when it comes to industry initiated cost reductions. We therefore are looking to areas beyond our immediate control; those dependent on the actions of our suppliers and government, including the Congress, who we invite to join us in maintaining the health of the Wyoming soda ash industry.

#### *Reducing Energy Costs*

First energy. While we are fortunate that the state is benefiting from the current energy boom, the rapidly escalating cost of natural gas has eroded our industry's profitability. While each of the soda ash companies in southwest Wyoming conserve power through cogeneration and/or the efficient use of electrical power, we are also each significantly dependent to one degree or another on natural gas; either as a direct fuel source and/or as part of the cost of electrical generation. It is not coincidence that the 150% increase in our natural gas prices over the last four years has contributed to the corresponding drop in our industry's profitability. And it is no coincidence nationally that when the price of natural gas began rising significantly in June 2000, a drop in manufacturing employment accompanied it.

We have asked energy producers to consider ways that they might mitigate the impact of these price increases on large industrial users. Part of the solution to the energy pricing problem for those of us who are customers is to be found in our own backyard. We are strong advocates for federal energy legislation that will encourage greater coal and natural gas production, and recognize that Wyoming is a state critical to meeting the nation's energy supply needs. Resolving the current pricing crisis takes a combination of policies. We must increase production of natural gas and increase use of coal for base-load electricity generation, ideas we know that you have long advocated, Mr. Chairman.

At the same time, it is in the best interests of energy suppliers to recognize that their long-term interests are served by a viable manufacturing sector, one that can compete on a global scale. We would welcome recognition of our global situation by our energy suppliers and will become more aggressive in our own efforts to make them aware of ways to mitigate the impacts of rising natural gas prices on our global competitiveness.

#### *Reducing Rail Costs*

Second rail costs. As you know, Mr. Chairman, ail of us here in the trona patch are so called 'captive shippers'. We have only one major rail service that can transport our product to both domestic and foreign markets. Under existing regulations that govern rail transportation, shippers have very little recourse on how rail rates are structured. We must negotiate a carrier's quote for service for the entire length of a route, rather than for each segment; even where competition may be available for certain segments. This is why we have consistently advocated for competitive access to rail routes.

For year's legislation has been before Congress that would require the rail industry to do what ail of us in the private sector do, compete for business. We believe it is in the railroad's long-term best interest. Legislation before the Congress sponsored by your colleague Senator Burns of Montana would aim to bring greater competition to our rail transportation system. We would strongly urge its adoption as one small step in the right direction of bringing competitiveness back to rail competition.

The Union Pacific was here before we were Mr. Chairman and is an important part of this state. But for the last 50 years we have been among their best customers. According to the UP annual report for 2003, we represent about 13% of the UP's total chemical shipments nationwide. Over the year's we have assumed a greater and greater proportion of rail costs, including providing our own rail cars, loading and storage capacity. We are now inviting the UP to recognize our financial situation and understand that if we are to sustain the large volumes that comprise our business we must be able to compete effectively internationally. Today, the cost of getting our product to the coasts for export is a significant increment that can enhance or inhibit our competitiveness. We need to make certain the UP is a partner and we ask for the delegation's support in helping us achieve this awareness.

#### *Reducing Taxes, Fees and Royalties*

Third, and finally, Mr. Chairman, are taxes, fees and royalties. The royalties, taxes and fees we pay to federal state and local governments account for over 14% of our overall costs of doing business. These include federal royalties on soda ash, currently at 6% per ton, state severance taxes currently assessed at per ton; the 8% royalties paid to the private landowner (Anadarko), our percent local property taxes, and state emission fees, etc. Today our four companies pay \$100 million in federal, state and local taxes and fees, even as our own profitability nears zero.

While we clearly agree that as citizens we need to pay our fair share, the current export situation has caused us to evaluate where we might legitimately have justification for some relief, at least until we can again see measurable export growth.

Mr. Chairman, we are very pleased that you have chosen to introduce legislation that would temporarily role back the current federal royalty from 6% to 2% for a period of five years. This measure we believe is consistent with the basic "conservation of the resource" philosophy embodied in our nation's public lands laws and is consistent with the original royalty set forth in the sodium leasing statute (i.e., 2%). A proposed increase in federal royalties in 1993 from 4 to 8 percent (later compromised to 6%) was justified by the Bureau of Land Management on the basis of the rapid growth in export markets for U.S. soda ash. But since 1997, the export growth for U.S. soda ash has been flat, and with the tariff and non-tariff barriers being erected in key markets is expected to remain so.

In obtaining fair market value for the resource we are blessed to develop in this region of the country, we are, by definition, a partner with the federal government. We would expect a good business partner to be responsive to market conditions in tough times today, just as they were eager to hike rates in better times just a few years ago. If the justification for raising royalties was based upon export growth then, doesn't it makes sense that royalties need to be adjusted when export volume has stagnated? Certainly your legislation is a welcome step in that direction.

#### *Conclusion*

Mr. Chairman, your legislation to reduce the soda ash royalty is an illustration of how we can work together to meet the demands of the current international trade climate. If enacted, it will help U.S. soda ash producers maintain their price competitiveness. This is the sort of initiative that we hope will signal to some of our

important suppliers our shared commitment to being good stewards of a valuable resource indigenous to Southwest Wyoming. We believe by working together we can restore export growth, expand capacity, and most importantly, bring back job growth to our local economy.

Thank you for the opportunity to present our views. I would welcome any questions or comments.

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PREPARED STATEMENT OF HON. GORDON SMITH

Thank you, Mr. Chairman. I thank our witnesses for testifying today and for coming to Rock Springs to give us a picture of the nation's soda ash industry and international trade.

While it may seem an esoteric issue to some, soda ash is an important export for Oregon's economy. As many of you know, about two million tons of soda ash pass through the Port of Portland annually—valued at about \$300 million. About 270 jobs in the Portland area are directly or indirectly related to your industry.

The soda ash industry is symbolic of the challenges American business faces as we move into an increasingly global market place in the 21st Century. Since soda ash's principal use is in making glass, its growth as an industry is fairly dependent on the growth of the glass industry. The domestic market of soda ash has been basically flat for years, due in large part to the fact that Americans recycle a majority of the glass produced each year.

Furthermore, soda ash has traditionally been the victim of excessive and discriminatory taxes and tariffs. This unfair practice has disadvantaged the soda ash industry domestically and internationally, affecting employment particularly in Wyoming and Oregon. I hope today's hearing will shed some light on the effect international trade is having on the soda ash industry.

Mr. Chairman, thank you for holding this hearing and I look forward to today's testimonies. I look forward to working the distinguished delegation from Wyoming in securing further free and fair trade arrangements for the soda ash industry. Thank you.

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PREPARED STATEMENT OF HON. CRAIG THOMAS

In an effort to open markets to U.S. goods, the United States has elected to aggressively pursue trade agreements with other countries. While we are the largest trading nation in the world, our full potential has yet to be achieved. U.S. businesses, unfortunately, continue to face trade barriers that unnecessarily restrict the flow of our goods and services. These barriers frequently are constructed to protect domestic industries from imports. Working with other countries will be critical if the U.S. is to be successful in obtaining market access and ensuring that the "playing field" is level for all participants.

While trade in general has been good for the economy, some industries in the United States have not fared as well. Trade has adversely affected the textile industry, for example, and certain sectors of the agriculture community. It is important that our trade negotiators not lose sight of the fact that some industries are more sensitive to trade than others. Special attention must be made to insure we are not taking one step forward and two steps back.

The United States is following a multi-prong approach to opening foreign markets. We have recently enacted bi-lateral agreements with Chile and Singapore. Negotiations with Morocco and Australia have wrapped up, and the United States has, or will, initiate talks with a handful of new countries in the upcoming months. At the same time, we are aggressively pursuing multilateral agreements in the World Trade Organization, Central America, the Western Hemisphere and the Southern Africa Customs Union. In addition, President Bush has unveiled a Middle East Regional trade initiative to encourage investment and closer trade relations in that area of the world.

Trade negotiations allow the United States to address barriers put into place to limit the movement of goods and services between nations. In the U.S. Trade Representative's 2004 annual report to Congress, ten categories of barriers were identified, ranging from tariffs and import licensing requirements, to export subsidies and inadequate intellectual property protections.

When U.S. businesses encounter one or more of these barriers, they frequently find themselves at a competitive disadvantage. Barriers add costs to exports that do not exist on goods produced domestically. In many instances, the costs are so

great a U.S. exporter cannot do business in that country. This is particularly frustrating for individuals and businesses looking to expand into new markets.

Why is reducing trade barriers important? Trade and investment are essential for the economic growth and high standard of living people in the United States enjoy. Trade as a percentage of gross domestic product exceeds 26 percent. Jobs directly supported by exports and imports top 22 million. One in three agriculture acres is planted for export.

More importantly, nearly ninety-six percent of the world's consumers live outside the United States. Granted, many of those individuals would not be targeted markets for U.S. businesses. But over time, as economic conditions strengthen around the world, trade will play a key role in improving the lives of millions, if not billions, of the world's inhabitants.

Without the elimination of world trade barriers and disparate treatment around the world, our soda ash industry will continue to struggle. The impact on our State's economy and the people of Southwest Wyoming will be devastating. With nearly ninety percent of U.S. soda ash produced in Sweetwater County, the lack of growth in domestic markets and the on-going battle to pry open global markets has hurt the companies, their employees and the communities serving this incredible industry.

The past several years have not been good for our domestic trona producers. Growth has been relatively flat, prices continue their record slide, profitability has fallen, and most importantly, the number of people employed in the industry remains in decline. If that isn't bad enough, China, for the first time, replaced the United States as the world's number one exporter of soda ash. This is a remarkable change considering that in the 1980's, China was a net importer of soda ash.

Our domestic soda ash facilities represent some of the most efficient industrial operations in the world. Despite the hard times facing the industry, they continue to improve productivity while manufacturing the finest product in the world.

At some point, however, productivity gains will end. The industry will face very difficult choices. It is imperative that we aggressively act to create new opportunities. Developing alternative uses for soda ash in the domestic market is essential. Ensuring that domestic tax and regulatory burdens are reasonable and economically based will be critical. Solving the high cost of transportation from Wyoming to shipping ports and markets will be necessary for the industry to remain financially sound.

I also continue to push for passage of a comprehensive energy package that targets development of existing resources while encouraging production from renewable sources. Businesses and individuals across the nation have been hit hard by rising fuel prices and any further delay in enacting an energy policy is unacceptable. Addressing the nation's energy situation must remain a high priority of the country.

We can achieve additional domestic relief for the trona industry by reducing the federal royalties on soda ash. I introduced an amendment in March on the U.S. manufacturers' export subsidy legislation currently pending in the Senate to reduce the royalty nationwide to the statutory minimum. Because passage of this legislation is uncertain, I also introduced the amendment as a free-standing bill last week, S. 2317, to accomplish the same objective if the manufacturers' relief package continues to face objections by Democrats.

In closing, U.S. negotiators must aggressively pursue illegal and other trade barriers that create unfair advantages for competitors and keep U.S. soda ash from entering foreign markets. We must be willing to push hard to eliminate these barriers in future trade agreements and take advantage of other options to tear down existing barricades.

The task will be daunting. However, I believe the desire exists to not back down and to confront these challenges as they appear. We have an incredible product that deserves to be shared with the rest of the world. Now is the time to make that happen.

The path we choose to follow over the next several years will be critical to our nation's future economic and social well-being. I am confident we can utilize trade opportunities to improve the quality of life at home and abroad. We must be aggressive in our pursuit to open new markets, but remain mindful that certain industries are more sensitive to trade than others.

Balancing those interests to achieve fair trade agreements is not easy, but I believe the United States is up to the challenge. Our soda ash industry, the folks they employ and the people of southwest Wyoming are counting on us to not let them down. I am here today to let you know you have my commitment.

