Final Transcript

CENTURY ALUMINUM COMPANY: 1st Quarter 2017 Earnings

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SPEAKERS

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ANALYSTS

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David Gagliano - BMO Capital Markets
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PRESENTATION

Moderator Ladies and gentlemen, thank you very much for standing by and welcome to the First Quarter 2017 Earnings. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session; instructions will be given to you at that time. [Operator instructions].

I would now like to turn the conference over to your host, Mr. Peter Trpkovski. Please go ahead.

P. Trpkovski

Thank you, Perky. Good afternoon, everyone, and welcome to the conference call. I'm joined today by Mike Bless, Century's President and Chief Executive Officer; Erich Squire, Senior Vice President of Finance; and Shelly Harrison, Senior Vice President of Finance and Treasurer. After our prepared remarks, we will take your questions.

As a reminder, today's presentation is available on our website, www.centuryaluminum.com. We use our website as a means of disclosing material information about the company and for complying with Regulation FD.

I would also like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations and financial condition. These forward-looking statements involve important known and unknown risks and uncertainties which could cause our actual results to differ materially from those expressed in our forward-looking statements. Please review the forward-looking statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties.

In addition, we have included some non-GAAP financial measures in our discussion. Reconciliations to the most comparable GAAP financial measures can be found in the appendix to today's presentation and on our website.

With that, I'll hand the call over to Mike.

M. Bless — Thanks Pete and thanks to all of you for joining us this afternoon.

If we could turn to Slide 4 please, I will give a quick update on the last couple months. As you can see, all the operations performed well through the quarter and into April, operating efficiencies have been consistent at favorable levels, and importantly, controllable cost have been equal to or better than our expectations. I'll give you some more detail on the operations in just a couple of minutes.

We've seen some positive developments for Century in commodity prices. As you've seen, the LME price is up nicely over the last couple months, and as we expected, alumina prices are down. Further, Midwest U.S. energy prices have been supportive, have continued to be supportive and importantly the MISO capacity price has recently fallen significantly. These trends will more fully impact our results over the coming quarters, and Erich will give you some detail on that in just a couple minutes.

Putting of trends in the pricing environment together with the cost control, we think these resulted in a favorable financial performance for us this quarter. Shelly will give you some more detail on the sector fundamentals, but in summary I can say that demand has remained good in the regions that are particularly important to us especially, like the U.S. and in Europe. The issue remains supply and of course, the situation in China in particular.

On trade as we talked with you about in February, the WTO case has been brought, it is absolutely clear to us that this administration intends to stand up to China on overproduction and we believe other governments around the world are also working hard on this matter. There has been plenty of public discourse on this issue, so there is no need to go into it in detail here. I will say that there has been a bit of a delay in the timeline for the WTO case itself, while the full trade team gets confirmed and put in place.

For example, the President's nominee for U.S. trade rep hasn't yet been confirmed by the Senate. And this of course is a department that directly oversees the WTO case.

Following the filing of that WTO case, we have seen a few favorable announcements come out of China, and we don't believe these are coincidental. Most recently, we've seen three large expansions under construction ordered to be halted. These of course are being built on the back of massive subsidies. These expansions represented significant capacity additions and regions in the western part of the country that have been targeted for growth.

Of course, it's too early to tell, but if there is real follow-through at this time, this could be the beginning of the fundamental change in the supply environment, and of course, that would be a meaningful development.

As a reminder, China's expected surplus of primary aluminum in 2017 is in excess of a 1.5 tons, and this just offsets the deficit in the rest of the world of a similar amount.

Moving along, the anti-trust lawsuit is proceeding on schedule in South Carolina, we told you about this during the last call. As expected, the power company moved to have the case dismissed by the judge, and this stage of the process is nearing completion. The ruling on that motion to dismiss should come before the end of this quarter, and the next step would be the discovery phase of the case, assuming the motion to dismiss isn't granted. We continue to believe we have a very strong case here.

On a related matter, we're closely monitoring the Westinghouse bankruptcy situation; I'm sure you have all read about this. The relevance is obvious, the local power company in South Carolina is a minority partner in one of the two nuclear projects in the U.S. that are being built by Westinghouse. Their partner made a decision in 2016 to transfer a large portion of the cost risk of completion to Westinghouse. Given the bankruptcy, of course, there's real doubt whether that guarantee will be honored.

The major risk is how and to what extent Westinghouse's parent company, obviously Toshiba, backs up that guarantee. The risk is that the power company moves to shift excess cost of this project to rate payers, whether the project is canceled or simply severely delayed and over budget. This could be a significant issue for Mount Holly, and we are obviously monitoring it very closely.

Lastly, it's early days now, but we are looking hard at our curtailed U.S. capacity in the U.S. and studying the next steps having the developments in the trade environment. As a remainder, at Mount Holly, the status there depends squarely on solving the power issue. Achievement of full market access for power should permit a restart of that curtailed potline.

Hawesville is different, depended on the commodity pricing environment. The power cost in Kentucky has been and continues to be supportive of restarting curtailed capacity. Increasing confidence on the free trade front could be supportive of the consideration of restarting at least the portion of the curtailed capacity at Hawesville. And to us, this would be a terrific example as how enforcement of the trade laws could bring manufacturing jobs back to the U.S. in the very short term.

And with that, I'll turn you over to Shelly for some comments on the market.

S. Harrison Thanks, Mike.

Okay. Let's move on to Slide 5, please and I'll take you through the current industry environment.

The cash LME price averaged $1850 per ton in Q1 which reflects an 8% increase over Q4. In the last month, aluminum prices have climbed as high as $1962 per ton and are currently right around $1940. Delivery premiums in both the U.S. and Europe were reasonably stable in Q1. Retail premiums averaged just under $0.10 per pound in the U.S. and $147 per ton in Europe, and premiums continue to trade near these levels today.

As it's usual for this time of the year, the aluminum market was a meaningful surplus during Q1, with much of Chinese demand shut down for New Year's holiday. CRU reported excess supply of 650,000 tons globally in Q1, including more than a million tons of excess supply from China. So consistent with past quarters, we continue to see Chinese producers oversupplying the market, which would otherwise be in a strong deficit position.

In the first quarter of 2017, global aluminum demand grew at a rate at almost 6% as compared to the year ago quarter. We saw 8% year-over-year demand growth from China and 3% in North America driven by strength in the building and construction sector. Year-over-year global production growth was up 9.1% in Q1 driven almost entirely by Chinese startups and restarts.

We talked in depth last quarter about the trade case that the U.S. has filed against China at the WTO, which has since been joined by Japan, Russia, Canada and the EU. As expected, this process is going to take some time to play out, but we were pleased to hear that trade and overcapacity specifically with regard to the aluminum industry were an important part of the discussion during the recent meetings between President Trump and President Xi. Many industry researchers have indicated that aluminum reforms could be a win-win for both leaders' agendas, benefiting trade in the U.S. and reducing overproduction and the environmental impact at smelters in China.

Since the WTO case was brought, the central and several provincial governments in China have made announcements requiring production cuts that could have the effect of significantly reducing Chinese overproduction if actually implemented.

In late February, the central government announced a directive that would require smelters in four provinces surrounding Beijing to cut output by 30% over the winter heating season. Analysts have estimated this could result in cuts of approximately 1.3 million tons. This was recently followed by announcement in a Northwestern Chinese province ordering the suspension of three smelter expansion projects. The amount of capacity that would be affected by this action is thought to be around 2 million tons.

As you know, while we are very cautious to put too much weight on the news out of China, while actual implementation of the cuts required by these announcements would be helpful, we believe it's of critical importance that the U.S. administration and other producing nations continue to pursue the WTO case and other trade remedies to ensure that unfair Chinese trade practices that devastated aluminum producers in the rest of the world for years are brought to an end.

Okay, moving on to alumina, I'll make just a few comments before I hand it back to Mike. As we anticipated on our last call, alumina prices have declined in response to Chinese refinery restarts and sizeable inventory balances. Alumina prices averaged $340 per ton in Q1 and are currently around $305 per ton. That's a $45 reduction when compared to prices of $350 per ton we saw at year-end.

The anticipated start-up of the 1.6 million ton Alpart refinery in Jamaica later this year should continue to put downward pressure on the alumina price, especially in the Atlantic basin.

And with that, I'll hand it back to Mike.

M. Bless Thanks, Shelly.

If we can turn to Slide 6 please, as promised, I'll just make a couple of quick comments on the operations before turning you over to Erich to go through the financials.

As you see, safety results here were mixed during the quarter. Sebree has continued its excellent performance. The guys have put up a really admirable record at Sebree, and we couldn't be more proud of them. Taking a bit of a backward step at Mount Holly and at Grundartangi as you see. This is a reminder that gravity really works against you when it comes to safety and a reminder that you need to stay aggressive, proactive and paranoid in this most important area, if we're going to accomplish the consistent improvement that we demand.

Moving down the page, production and efficiencies, as you can see indicative of the stable environment I described at the beginning of my remarks. Controllable cost, as I said, in line with our expectations. Let me just deconstruct these numbers for you a little bit, so you can have a better appreciation as to what's going on in the cost side.

At Hawesville, first and foremost, you see good performance there. Labor and maintenance spending down nicely, power cost down as well. Going the other way, we are seeing carbon cost trend upward, and we expect to see this trend continue at all the plants over the next couple quarters as global calcined petroleum coke prices are coming up.

As Sebree, about half of that increase that you see is also carbon and other raw materials, mostly carbon. The other half is labor and maintenance costs. That was from a really low base in Q4, so we don't see any worsening trends there.

At Grundartangi, power represents all of that cost increase. As you remember, we pay for our power in Iceland as a percentage of the LME price, so what you are seeing there really is just the—it's just the rise in the metal price.

And then, Mount Holly also power represents that entire increase. This again emphasizes why we need to solve this problem; this trend won't reverse on its own.

And with that, I'll pass you on to Erich.

E. Squire Thanks, Mike.

Let's turn to the Slide 7 of the presentation, and I can walk you through a couple high level points on Q1 results and then give more detailed look at adjusted EBITDA and cash flow on the following two slides.

On a consolidated basis quarter-over-quarter global shipments were up 1.5% and net sales were up 7.5%, reflecting the favorable market pricing. Both U.S. and Icelandic realized pricing were favorable in line with market movements. Again, we peg pretty closely to LME and regional premiums on a two-month lag basis, so the increase in transaction prices we saw starting in February will come to our results in Q2.

Value added product premiums in the U.S. remain depressed and we expect this to continue well into 2017. I'll speak more to value added products when we look at the quarter-over-quarter EBITDA detail.

Looking at operating profit, adjusted EBITDA was $22 million which is up $10 million quarter-over-quarter. EBITDA adjustments this quarter were related to mark-to-market on aluminum forward sales and adjustments to the carrying values of inventories. Forward aluminum sales are predominantly composed of 5500 metric tons of month through year-end with the sale price of around $1700 per ton.

Looking finally at liquidity before we go deeper into EBITDA and cash flow, we have no outstanding borrowings under our revolver other than letters of credit. We ended the quarter with $126 million in cash and $100 million of availability under our revolving credit facilities. We will see a $25 million increase of revolver availability starting in Q2 as letters of credit in connection with the completed annual MISO power capacity auction for our Kentucky plants were returned in April. I'll speak to the results of that auction momentarily.

Let's turn now to Slide 8, and I can walk you through a high level quarter-over-quarter adjusted EBITDA bridge. Again, adjusted EBITDA increased this quarter by $10 million. As I mentioned earlier we saw a nice increase in the transaction prices for both our U.S. and Icelandic operations, increasing EBITDA by $28 million. Product mix contributed net $10 million unfavorable due to changes in product mix that took effect in 2017.

As we outlined in our 2017 expectations on our prior call, our expected value-added product sales in 2017 are down 145,000 tons year-over-year due to the oversupplied value-added product market in the U.S., ultimately driven by Chinese overproduction. Beyond the lower value-added sales volumes, expected value-added premiums are also down quarter-over-quarter and we anticipate that they will remain at the current levels for the balance of 2017.

On key raw materials, you can see a $10 million EBITDA reduction primarily related to alumina, reflecting the run up in the alumina price index late in 2016. We purchased alumina priced on a one-month lag, but as we've discussed, alumina typically flows through our financial results on a two- to three-month lag due to inventory levels. Accordingly, we expect to see the full impact of the API run-up to flow through our Q2 results with the much lower prices we're currently paying not affecting results until Q3. Again, our current cash costs are based on the prior month API. Also just a reminder that beginning in 2017, all of our alumina is price basis the API with no remaining contracts price basis a percentage of LME.

You can see power costs increased slightly, reducing EBITDA by $1 million. U.S. Midwest market prices continue to reflect the mild winter weather we saw beginning in Q4, while Icelandic power prices increased with the LME. Looking to future quarters, results from the earlier mentioned MISO capacity auction were favorable. So all else being equal, we'd expect a cost reduction of about $35 a ton for the U.S. plants starting in June of 2017 with a favorable annualized impact of $15 million a year based upon the sensitivities we provided you on the last call.

Other net operating costs were favorable $2 million as the plants continue to maintain their aggressive cost containment initiative as Mike mentioned. Finally, all other cost items were net $2 million favorable primarily related to lower SG&A and the elimination of Ravenswood carrying costs due to the sale of that asset.

Turning now to Slide 9, we'll take a look at cash flow during the quarter. Cash decreased this quarter by $6 million. Capital expenditures during the quarter were $9 million, which includes $2 million of carryover from 2016. We're still targeting to finish the year in line with our expectation of $25 million to $30 million that we provided last call.

We received the remaining $14 million in proceeds from the Ravenswood sale during the quarter. Just a remainder that we expect to make the first settlement payment in connection with the Ravenswood retiree medical litigation sometime during the second half of 2017. That will be a $5 million payment followed by annual installment payments of $2 million for nine years thereafter. All accounting charges related to the settlement have been taken.

We had a net cash outflow of $2 million from taxes paid in the quarter related primarily to our Icelandic operations. Finally, as we noted on our prior call, working capital increased by $31 million as a result of changes in the commercial terms of a portion of our U.S. sales contracts. We believe that the additional investment in working capital required for these changes was substantially reflected on the March 31 balance sheet. So looking at the financial results of the quarter on balance, we're able to maintain our aggressive cost structure and capture the benefit of the current market pricing.

With that, I'll pass back to Mike.

M. Bless — We appreciate everyone joining us this afternoon, and I think, Pete now, we can open it up for questions.

P. Trpkovski — Sure, thanks, Mike. Perky, if you could go ahead and facilitate the Q&A session please.

Moderator: [Operator instructions]. And our first question comes from the line of Brett Levy with Loop Capital. Please go ahead.

B. Levy: Hey, Mike. Hey guys.

M. Bless: Hi, Brett.

B. Levy: You guys provided a lot of reasons to be cheerful, whether it's alumina or other costs flowing through from Q1 to Q2 to even Q3. Is there any plan to issue official guidance for either 2Q or the full year as you kind of get further into the second quarter? And then, I think in terms of like hedging and other metrics, is there any plan to release additional details?

M. Bless: Sure, Brett. On the updating of the guidance, as you said, Pete really gave the only delta that we would use right now, which is the reduction in the U.S. power cost, and he gave you the metric $35 per ton OpEx. The alumina price right now, if you look back to the price that we had assumed embedded in the "guidance" we put in the slides in Feb, we're right around there, so there's really no delta there in terms of that guidance.

Anything else we'd probably wait, not because we're stuck on a schedule, Brett, but we—if my memory serves, most of the last couple of years had enough change that we've updated that guidance in the July call. We will provide some data there, but really power is the only significant change.

B. Levy Got it. And then, I think in terms of like capital markets and opportunities and that sort of thing, markets are open, call prices are going down, maturity dates are coming up, are you starting to think at least a little bit about what the next steps would be in terms of putting long-term assets against long-term liabilities?

M. Bless Well, I mean I'll let Shelly talk about the way we generally look at beginning to prepare that, at least the thought process and then the real process around the refinancing of the existing bond. We got a couple years yet to the maturity date, and as you say, call prices in front of us.

The only point I would make, and your question wasn't suggestive in this direction, we would not look to put capital of any sort on the balance sheet, warehouse capital I suppose is a term that's sometimes used, just because the markets are conductive, much the opposite. As far as we're concerned, our job is to run as lean from a capital structure standpoint as we can prudently do. Shelly, do you want to talk about—?

S. Harrison — Yes. Our current bonds, they mature in 2021, so to do something now would be quite expensive. We definitely look at it all the time. I would think that later this year, early next year as when that activity will really start picking up, but we're absolutely looking at those markets.

M. Bless — If you look at the breakeven now, it's not very attractive given the call premium.

B. Levy — Got it. And then, last one relates really to Iceland. I think that you guys have sort of done your best despite kind of an unconducive Icelandic economic political stance to continue to grow and expand, but not kind of getting in the way of what the Green Party or whatever going on over there. Can you talk about kind of your ability to or your plans to add capacity or what you're specifically doing to debottleneck or add a little bit more production out of Iceland over the next couple of years and expenditures associated with that?

M. Bless

Yes, sure, Brett. So the simple answer is the capacity creep program continues and will continue. We're at the point now as we've said where we're getting closed to the—I'll use the term the guys use, the theoretical maximum amperage, which you can put into this cell design and thus, you metal you can get out is a direct correlation in and out, as you know. And so we're within that at this point in time sort of 5% of that theoretical maximum now.

As I think we talked about before, we are running some R&D that seeks to with the same pot change certain characteristics of the design like the lining in the cathode without getting technical to enable sort of another surge on top of that, that might enable you to get another sort of 5%, 6%, 7% in addition to that 5%, 6%. But, in terms of the first 5%, 6% chunk, which is another sort of 15,000, 20,000 tons, that'll come, as we've said, over the next couple years. I think that program should end, i.e., deliver that final volume sometime in the next kind of three-ish years, and the spending to answer your question, is relatively modest.

It fits within the envelope that we've been spending at Grundartangi over the last couple years, Brett, which is in the sort of maintenance CapEx at Grundartangi is in the sort of $6 million to $8 million, $5 million to $8 million, and then on top of that, you can kind of put another $5 million to $6 million to $7 million on an average basis depending on the years. Some years are going to be lumpy because you got to order a new piece of high voltage equipment or something, so it'll be $8 million or $9 million, $10 million some years, and some years for the capacity creep it'll be less than that.

But that's kind of the program to continue to A) get more metal units; and B) of course every metal unit leverages the fixed cost structure so you're driving down your OpEx. In addition, as we talked about last time, we continue to look for the right both entry point and specific project to de-commoditize—fancy word—Grundartangi's business, i.e., to build the value-added catch house, and that's something that we're still looking at closely. Again, an improvement in the trade environment would be conducive to us reaching the goal line on pulling the trigger on something like that.

B. Levy All right, Shelly, guys, thanks very much. I'll pass the baton.

M. Bless Thanks Brett.

Moderator Thank you. And our next question comes from the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano Hi. Thank you for taking my questions and congratulations on a very strong result and a solid outlook.

M. Bless Thanks, David.

D. Gagliano The offline capacity, I believe it's at Hawesville, I was wondering if you could just walk us through the analysis there, what you're thinking about in terms of—I know you talked about it from a qualitative perspective, but I'm wondering if you could, first of all, just remind us, what is it, 300 million pounds that you could bring back on there?

M. Bless Sure. We think in tons, it's 150,000 tons, so you're pretty close there. Let me talk through kind of just the facts and then perhaps to your question some of the major facts in the decision process. So it's three of the five lines are down, each line 50,000 tons, 150,000 tons. Of those three lines, one, as you'll recall, is incapable of making purity. It produces P1020 only and standard grade only. And then, the other two lines are capable of producing purity. As you know, we're making less purity this year.

You've seen our estimates of and actuals for, as Erich took you through, product premiums down this year because of the excess of supply in those sectors from imports.

So number one consideration would be what products could we make there; second consideration, obviously the metal price is obvious, it would be alumina pricing because we have to go procure alumina for that capacity. We've only procured alumina for the—in the U.S. for the operating capacity which is half of Mount Holly and 40% of Hawesville.

And then, other than that, as we've talked about in the past, it's important to remember, it just goes into the IRR calculation here in the breakeven, or however you want to describe the financial analysis, there is a start-up cost here to be borne. I'll call it a one-time cost, and the biggest issue at Hawesville and in addition at Mount Holly are the cells themselves. So we've been—I don't like using this word, but I'll use it for brevity—we've been cannibalizing cells at Hawesville in the three curtailed lines every time a cell in the two lines that are producing fails. As you know, they fail on average every four and a half to five years. And so we would have to spend the money to rebuild those cells in the line or the lines that we brought back. In addition, at Mount Holly, there is some work that would have to be done in the bakeshop there to refurbish, without getting technical, the bake ovens themselves, the walls that separate them, so cost for the walls.

But ultimately the largest issue here, as I mumble through, is metal price, and there it's really, not to circle back, but it really all begins and ends here. It's our assessment of, and more importantly the real actions in the trade environment here. If we have some serious movement there and we took a view that the market can now trade based on the true fundamentals of demand and legitimate supply, you could see a very strong case to bring that capacity back on really soon.

D. Gagliano Okay. And then just to round out that part of the conversation, you mentioned start-up costs. I don't think you quantified it though. Can you quantify the start-up costs?

M. Bless It depends, David. Without trying to be squirrely, it depends. I'll give you a range. It depends specifically on where we are, at what point in time, i.e., how many cells have we grabbed, cannibalized again, to use that word again. But it's $5 million plus per line. It's kind of in the $5 million to $6 million to $7 million to $8 million, again, depending upon facts and circumstances, depending upon which line we restarted first, there's the lot of technical determinations in that, but it's real money. It's millions and millions and millions of dollars per line. When I say line, again, per 50,000 tons of capacity at Mount Holly and the same math for—I'm sorry at Hawesville, thank you, Shelly, and the same math, just a little bit bigger, because you're talking about 115,000-ton line at Mount Holly. So they're big numbers.

D. Gagliano Okay. And then just the last metric to finish it off, if you could just give us a range on reasonable cash cost assumption, say, range for Hawesville and Mount Holly.

M. Bless So you're talking about right now or—?

D. Gagliano Well, for the capacity that you bring; I'm assuming it's the same.

M. Bless It would be so, okay, I understand your question. So we've never broken out obviously plant-by-plant for obvious competitive reasons. But, if we go look in the U.S. average, the incremental—please, when I finish talking, tell me if I've answered the question that you asked. The incremental OpEx would be lower because obviously you've got a lot of the fixed cost that you're bearing already, so that marginal cost would be lower than the cost that you have right now. Now the commodities—it depends on a point in time where alumina was trading, where coke was trading, but if all else being equal, if those commodities were the same, then the cost should be lower because you're leveraging your fixed costs.

D. Gagliano — Okay. All right, that's helpful. And then just one kind of annoying question, but I think it matters given directionally where it looks like we're heading here, what is the right diluted share count to use when trying to positive on the—?

M. Bless — You never ask annoying questions, David. Pete, I'm going to—we have common shares, of course, and we have preferred shares which are other than the fact that they don't vote, I think of them really as maybe the accountants won’t like this, really common shares. That's what they are. From an economic standpoint in our strong opinion that's what they are, so go ahead, Pete, please.

P. Trpkovski — Right, thanks, Mike. All in, we’re just shy of 95 million in total shares.

M. Bless — Includes the preferred?

P. Trpkovski Correct.

D. Gagliano Right, but when you swing to a positive, does that change at all?

M. Bless We're talking GAAP versus economic. Yes, sorry, go ahead.

S. Harrison Yes. From a management perspective, we always look at it over Pete's 95 million shares, we always include preferred shares. When you are looking at the accounting, you're correct that they are included when you swing positive, they are not included when you're negative. It's a bit confusing.

M. Bless It's GAAP, but with all due respect, again, from an economic standpoint, those shares are always diluting the shares—they're always there, in our opinion, whether you report a GAAP profit or whether you report a GAAP loss, so that's why when we do our adjusted EPS, the denominator there always includes all those shares.

D. Gagliano Got it. Thanks.

M. Bless Sure.

Moderator — Thank you. And our next question comes from Novid Rassouli with Cowen & Company. Please go ahead.

N. Rassouli — Hi guys, Novid at Cowen. Just a couple quick questions. Michael, you'd mentioned that the WTO timeline had been delayed. I just wanted to see what the next signpost is to watch for with the Dutch trade case?

M. Bless — Well, there are certain timelines that are noted in the WTO rules. At this point in time, Novid, not to try to duck it, it's really hard to answer that because at this point in time, the U.S. would have to begin to work that case. That's not a technical term again, and we believe it's not just our belief that the first step has to be the confirmation of the President's nominee for U.S. trade rep, which when you just read the public domain looks like it should take place here over the coming weeks.

So we're encouraged by that. We've been talking to the USTR folks. Obviously, there's been a whole team there right now, but they're missing their leader and that—it really is USTR here that is mandating, responsible for prosecuting the WTO case. So after that, there is the consultation period about which we talked before that should start that's several months. If that period is unsuccessful in reaching an agreement, then as we've said before, the cases need to be litigated, and that can take quite some time, measured in years.

N. Rassouli Got it. And one more on the trade front, we've heard that the Trump administration may be looking to target aluminum with respect to national security the way they are recently did with steel with section 232. So I just wondered if you could speak to the potential for that, what exactly is the process, the logistics and maybe what you think your exposure is as far as applications that are sensitive to national security.

M. Bless Sure. So I'll take your questions in order. You can just go look at the steel case. There is a study period that's mandated under section 232, and that's what's going on right now in steel, at the end of which remedies can be imposed by the President.

In aluminum, we really are, without being—trying to be unbiased about it, we really are the example here. As you know, we produce in essence all of the—we're the only producer of high purity metal. We are the only producer of high purity metal now in the U.S. The rest of the purity in the U.S. market is from foreign sources, mostly one smelter in the Persian

Gulf. And so this would be one that really—I don't like to say would—should benefit us greatly because if remedies were imposed, it would greatly increase the value of our production capacity in the U.S., especially for the highest grades of metal P0202, which is generally the purest grade of metal that's produced and trades on the market.

So that could be very interesting one for us, Novid. I would say we still believe that the prosecution of whether through consultation or ultimately litigation of the WTO cases is necessary here because that's what cuts off the problem at its source. It's aimed at the excess production that's propped up by the illegal subsidies. That's the only solution that's going to give a long-term relief to this problem. Other things can do things in the short-term, and we'd welcome them, but really, the prosecution of the WTO case is what's required here.

N. Rassouli — Right, the financing side basically.

M. Bless — Precisely.

N. Rassouli — Okay. And my last question, so your view of alumina prices that would head lower, you guys have been correct on that. I think you mentioned on the call that you expect them to continue lower. I'm just wondering how realistic it is for aluminum prices to remain near the current range of alumina prices or continuing lower and there is an expected deficit—sorry, expected surplus for aluminum this year.

M. Bless Yes, sure. That's a good question. So, look, this was no great foresight on our part. We just looked at, as Shelly said, restarts in China of refineries; and two, looked at basically the arbitrage in the price in China. And one can predict with at least over the short-term with some measure of if not accuracy, at least confidence. Given all those factors, we think there is a little bit—it's not going to be in our opinion and it can't be, and perhaps this gets at the second part of your question, which I'll address in a moment. There's a little bit further to fall. It isn't going to be another $50 in our opinion.

Before getting to the balances, if you look at sort of where the third-ish, deep third quarter, bad third quartile smelter—pardon me, refinery is, it's in, Pete and Shelly, probably the high 200s, and so we're not quite there yet. You're talking, I think, about the relationship between the alumina price and the aluminum price.

N. Rassouli Yes.

M. Bless I mean, we're back right now, I haven't done the long division, but just doing it in my head, 305 divided by—it's like 15 point—these guys are shoving it at me—15 and change, right, 15.5% give or take. That traditionally, other than the last year, year-and-half has been sort of where alumina has traded. So when you put all that together, Shelly raised a good example of a very large refinery that’s due for a restart here in the Atlantic Basin, which is obviously positive for us. We think that alumina can still give a little bit—and metal, to your point, at a 1.5 million ton surplus, that's one thing, but that assumes that Chinese capacity continues to come on as expected.

N. Rassouli Great. Thanks so much.

M. Bless Thank you.

Moderator [Operator instructions]. There are no further questions in queue. Please continue.

M. Bless Thank you. We very much appreciate everybody's time this afternoon, and we look forward to talking with you over the coming months. Thank you so much.

Moderator Thank you. Ladies and gentlemen, that does conclude your conference for today. Thank you very much for your participation and for using the AT&T Executive Teleconference. You may now disconnect.