Final Transcript

CENTURY ALUMINUM COMPANY: Q1 2016 Earnings Conference Call

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SPEAKERS

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Mike Bless - President and Chief Executive Officer
Rick Dillon – Executive Vice President and Chief Financial Officer
Shelly Harrison – Senior Vice President, Finance and Treasurer

ANALYSTS

Jorge Beristain - Deutsche Bank
David Gagliano - BMO Capital Markets
Tony Rizzuto - Cowen & Company
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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by and welcome to the First Quarter 2016 Earnings Call. At this time, all lines are in a listen-only mode. And later, we will conduct a question-and-answer session. (Operator instructions.) And as a reminder, today's call is being recorded.

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

P. Trpkovski: Thank you, Kerry. Good afternoon, everyone, and welcome to the conference call. 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.

And now, I'd like to introduce Mike Bless, Century's President and Chief Executive Officer.

Kerry, I believe Mike is in listen-only mode according to our monitor. Can you please see that he can be a speaker at this time?

Moderator Sure, one moment.

P. Trpkovski Apologies, everybody, Michael is in a different location than the rest of us at the moment.

Moderator His line is open.

M. Bless Can you hear me?

P. Trpkovski Yes, Mike, please continue.

M. Bless All right. We apologize for that. As Pete said, I'm actually in South Carolina today. I'll update you on the situation at Mt. Holly in just a few moments. And so, when we do get to Q&A, please bear with us while we make sure we get the right responder to your question. So, again, I apologize for that and thank everybody for joining us today. We appreciate you being here.

If we could turn to slide 4 please, I'll give you a quick run-down of what we've been working on since we spoke with you in late February. Shelly, as normal, is going to talk to you in just a few moments about the trends in the marketplace, but let me just make a couple of comments to put the points I'm about to make into some context.

Since we talked to you a couple of months ago, we've seen no change in the market trends. The demand side picture around the globe, most of the globe remains favorable, putting aside the risk of a recession caused by any number of external shocks. We think growth continues to look okay in much of the world.

China of course remains the wildcard from both a demand and a supply standpoint. As you've seen, if you've looked at the data, Q1 saw consumption in China slightly above expectations. As you know, this is always a volatile quarter due to the holidays in China in the early part of the year.

The SHFE price has performed well above the LME and this is due to both physical market tightness that's been reported and we believe significant speculative activity in the marketplace.

Nevertheless, the market remained in significant surplus during the first quarter and we see upwards of 1.5 million tonnes ready for restart during the balance of this year. In addition to that, there are new projects that are scheduled to come on-stream. And given the SHFE market price performance we believe all of this is coming.

The exports that are necessitated by this overcapacity have of course decimated our industry in the US; that's of course the primary industry. We've now studied this carefully at a very detailed level and we're absolutely convinced that massive subsidies exist. Those subsidies are in direct violation of global trade laws.

We're now working with relevant parties and expect some serious actions soon. I'll provide some more detail on that later.

Turning inside the company, the operating performance at each of the plants was largely consistent with the expectations we gave you in late February. As you'll remember, we needed to confirm we could run especially the US plants at the cost structures assumed when we move to the new operating configurations during the second half of the year.

This was particularly true first at Hawesville, where we reduced capacity by 60% in the second half of the year, and also at Mt. Holly where we reduced capacity by 50% just at the end of the year. As you know the reduction and the curtailment at Mt. Holly was required directly by our inability to achieve a competitive power contract. Again, I'll update you on where we stand there in just a few moments.

We're pleased to report that all the plants performed well and consistent with our expectations. I'll provide some detail on the operations in just a few moments.

At a consolidated level, the plant's operating performance produced financial results that were favorable to our expectations. Rick will give you more detail on the financial results in just a couple of moments. But what you'll see is a significant improvement versus Q4, positive EBITDA and net cash flow, free cash flow during the quarter. I might remind you most of our sales are priced on a two-month lag, so the results that you're seeing this quarter are well before the recent run-up in the aluminum price.

Bottom line, we're convinced the strategy we put in place is sound. The company is currently configured, should produce reasonable results in the current environment as we've designed. And we believe we're setup very well to prosper when conditions do improve.

Now let me talk about Mt. Holly. Let me just remind you where we're coming from. We've been buying 75% of the power requirement for Mt. Holly from market sources and 25% directly from the generation of the local power company in South Carolina.

As those of you who have followed the company for some time know this arrangement has been in place in various forms since mid-2012. Regrettably it produces a weighted average price that simply doesn't work. The weighted average price we're paying today, based on that split 75% market, 25% direct from the power company here in South Carolina, that weighted average price puts Mt. Holly in the fourth quartile of global power prices for smelters.

Again, as you know this would otherwise be a very competitive plant due to its modern technology and an extraordinarily able group of employees. Regrettably, however, the power price simply makes the plant uncompetitive and thus not viable over the long-term.

For these reasons in the second half of 2015, we proposed being allowed to buy 100% of our power from market sources. We'd still be directly served by the power company; all the power is transmitted to the plant and sold to us by the local power company. So, we're not talking here about deregulation or direct retail access or anything like that.

We'd continue to pay the local power company a transmission fee to transmit the power to the plant, that's at their standard transmission rates. This arrangement again 100% of market power with the transmission rate would get Mt. Holly close to the median on the global power price curve.

Regrettably, as you know, the power company rejected our proposal last year and so now we're seeking a last attempt to find a workable solution. And thus, we decided to try a legislative solution. In this respect, regrettably at the end of the year we had to cut 50% of the plant's capacity given the uncompetitive power price, we just couldn't suffer the losses that we were bearing.

We've been engaged in this legislative process over the last couple of months. We've not yet found a solution but what we have seen is very good engagement from legislators and other key constituencies. We think everybody gets it; we think everybody sees the critical nature of Mt. Holly, to the employees, to the local community and to the state at large. In that respect we're continuing to look at every available option, both legislative and otherwise.

In the interim, we bought market power through August to allow a full investigation into every potential alternative. For this same period again through August, we bought forward natural gas requirement and sold forward the LME at the recent favorable prices, just to take the commodity risk off the table while we're looking for a solution to the power contract.

We're obviously running out of time. Again this is an excellent plant in every way other than the power price. We've got a truly energized, engaged and productive team of employees. It's now the most modern smelter in the US, so it's got good efficiencies, good usage of power, good usage of carbon, etc., good current efficiency. It's got a world-class casthouse, making a suite of value-added products and an excellent group of customers.

For all these reasons we're doing everything we can to find a path forward but at the end of the day, as you all know, the plant must have a competitive power price or it simply won't work over the long-term.

And with that, I'd like to turn it over to Shelly to talk about the external environment. Shelly?

S. Harrison Thanks, Mike. If we can move along to slide 5 please, I'll provide some comments here on the industry environment. The cash LME price averaged $1,515 in Q1. This reflects the 1% increase over Q4 but compared to Q1 of last year this is a 16% decrease. We've recently seen a nice run-up in LME prices and today we're right around $1,650 per tonne.

Chinese prices in Q1 rose at a faster pace than the LME, with Shanghai prices up 4.5% as compared to the fourth quarter. Regional premiums in both the US and Europe has softened a bit over the course of the first quarter. The Midwest premium is currently at $0.08 per pound and the European duty paid premium is $130 per tonne.

In Q1, we saw an additional 500,000 tonnes of capacity come offline. This means that the US has lost 50% of its remaining capacity over the last two quarters.

Meanwhile the recent increase in the Shanghai price is resulting in meaningful restarts of curtailed volume in China. Chinese investments and new smelter projects, expansion of existing facilities continue despite its already oversupplied aluminum market.

In the first quarter of 2016, global aluminum demand grew to a rate of 5% as compared to the year ago quarter. Year-over-year production was relatively flat as a result of the curtailments in late 2015. But as I mentioned previously, a significant portion of that recently curtailed capacity in China is already in the process of being restarted.

Most industry experts continue to expect the global aluminum market to be reasonably well balanced in 2016 with a large surplus in China resulting in record export level.

Okay, just a couple of quick comments on the alumina market before I hand it back to Mike. Alumina prices climbed steadily over the course of Q1, increasing from around $200 per tonne at the end of Q4 to their current level of about $255. That's still down almost $100 per tonne from early 2015 when spot prices were trading around $350. Overall, the global alumina market is expected to see a deficit of just over a million tonnes in 2016.

With that, I'll hand it back to Mike.

M. Bless Thank you, Shelly. If we could turn to slide 6 please, I'll comment as I normally do about the operations. As a reminder, the chart is set up to compare the quarter that just ended with the prior quarter, so Q1 over Q4 here.

As you'll see we've had a good quarter in the operations generally. Most importantly on safety you see the excellent performance in the US plants. I might remind you this is after a very good fourth quarter and all of 2015.

In Iceland that result is a little bit misleading. We only had one recordable incident in the first quarter; that was the last during incident-free Q4. We're really pleased with the results across the company. This was a result of much attention and hard work by all the employees but we all know, all of our colleagues know, that one needs to remain diligent and continue to improve in this area. That's the only acceptable performance.

Turning to production, as you see, Hawesville is down 7%. This is largely a result of the fact that we did curtail the production still during the fourth quarter. So we only reached the 40% of capacity during the fourth quarter. We also were slightly below at Hawesville expectations for production during the quarter. We had a couple of cells more offline on average during the quarter than we would normally have.

We regained this as of late March, and regained a full pot complement, of course, at the 40% production. That's two pot lines.

Very importantly, our high purity production at Hawesville started off the year favorably and has now reached really strong levels. So, obviously that's critical to the performance of the plant. That's the result of excellent management of those pot lines.

As you see, no surprises on production at the other plants. Mt. Holly, of course, is a direct result of the curtailment action. As a reminder, that didn't happen until late December.

Moving down the slide to production metrics, as you'll see off a little bit at Hawesville, that's again due to the efforts to get the pot count back to the full level, at the two pot lines. The other plant as you can see looked good.

And lastly on conversion costs, as you can see Mt. Holly was up slightly. That's only due to the fact that the curtailment occurred so rapidly at the end of December. The plant's running very well over the last couple of months.

As you'll see the other plants are favorable, Sebree, especially, is operating really well. We're extraordinarily proud of the team there. And again, you can see Grundartangi continues to perform well across the board.

And with that, I’ll turn it over to Rick and ask him to comment on the financial results.

R. Dillon

Thanks, Mike. If we turn to slide 7 of the presentation I'll provide some details here on our financial performance for the quarter.

Our net sales were down 17% from the fourth quarter reflecting unfavorable market conditions, and lower sales volumes due to the curtailment activities. Looking at the market impact, on a two-month lag basis, the average cash LME price was down 5%. However, the Midwest premium increased almost 17% resulting in a Midwest transaction price decrease of 3% quarter-over-quarter.

Realized prices in the US were down 1% reflecting the decrease in the Midwest transaction price offset by a higher percentage of value-added product shipments in the first quarter when compared to the fourth quarter. For Iceland, the all-in two-month lag LME and European duty paid premium decreased approximately 3% in the first quarter consistent with the decline in realized prices.

On a consolidated basis, global shipments were down 14% in the first quarter of 2016. North American shipments were down 27,000 tonnes driven primarily by the decisions made in the fourth quarter to further curtail Hawesville, reducing to 40% capacity, and to reduce Mt. Holly to 50% of its capacity. Mt. Holly shipments were down approximately 25,000 tonnes, about half of its fourth quarter shipments, while Hawesville shipments were down approximately 2,000 tonnes quarter-over-quarter.

Sebree shipments were essentially flat when compared to the fourth quarter of 2015. As Mike noted the facility continues to run at 100% capacity. While North American shipments were down 27,000 tonnes, production was only down 25,000 tonnes from the fourth quarter. The additional decline in shipments is because we did not have the same sell-through of inventory that we had in the fourth quarter of 2015.

Iceland shipments were down 3% reflecting timing of revenue recognition during the first quarter. Production at Iceland was essentially flat when compared to the fourth quarter.

Turning our attention to operating profit for the quarter, we are reporting an adjusted EBITDA this quarter of $2 million, an increase of $30 million when compared to the $28 million loss reported in the fourth quarter. Lower raw material costs increased EBITDA by approximately $14 million during the quarter led by a significant decline in aluminum cost relative to the fourth quarter.

Lower all-in pricing, including the impact of a declining LME on Iceland power, partially offset by regional premiums, reduced EBITDA by approximately $5 million from the fourth quarter of 2015.

Favorable power costs at our Kentucky operations added approximately $4 million to EBITDA in the first quarter, as we continue to benefit from historically low market costs. As a reminder, every dollar per megawatt hour impacts EBITDA from our Kentucky operations by approximately $5 million per year, assuming the current configuration at Hawesville at 40%, and Sebree at 100% of capacity.

Power costs at Mt. Holly reduced EBITDA by approximately $1 million. As we discussed in the last call, this reflects the impact of approximately

100% of Mt. Holly power requirements from Santee Cooper generation in the month of January, as we transitioned to our new arrangement with Santee Cooper. We moved to a 75% and 25% Santee Cooper generation mix for the remainder of the quarter. As Mike noted, we secured market power through August of 2016.

Net lower sales volume, as a result of curtailment actions on unfavorable pricing, resulted in the benefit to EBITDA of approximately $12 million.

Lastly, we experienced approximately $6 million in lower spending and better fixed cost absorption at our North American operations, as the inefficiencies associated with the curtailment activities of the fourth quarter are behind us.

Collectively, these items resulted in a net $30 million increase in EBITDA during the first quarter, which contributes to an adjusted loss per share of $0.23, an increase of $0.30 when compared to the $0.53 loss we reported last quarter.

Moving on to liquidity. There were no outstanding borrowings under our revolver other than letters of credit. We ended the quarter with $126 million in cash and $87 million of availability under revolving credit facilities. As a reminder, these facilities are secured by both accounts receivable and inventories and availability on the revolver will fluctuate as our working capital levels move during the year.

During the quarter we also negotiated an extension of the $50 million Iceland revolving credit facility agreement through 2018, a two-year extension.

Please turn to slide 8 and we'll take a look at cash during the quarter. Cash increased during the quarter by $11 million. We received $12.5 million during the quarter as the final purchase price adjustment under an earn-out provision on the Mt. Holly acquisition.

Capital expenditures for the quarter were $4 million and we continue to expect capital spending for the year to be approximately $20 million. Reduced working capital benefited the quarter by $3 million, as we leveled out inventory in North America to match current operating configurations, partially offset by an inventory build in Iceland in anticipation of the expiring tolling contract.

We do anticipate a working capital build in the second quarter as the last Iceland tolling contract expires. We made estimated tax payments of $3 million in the quarter. And we also, as a reminder, we will also make our semi-annual interest payment of approximately $10 million coming here in the second quarter.

Lastly, let's take a look at our consolidated cash breakeven point. When we last spoke, we gave you our estimated consolidated cash breakeven of $1,450 per tonne. As an update, our current estimates of the consolidated breakeven is approximately $1,550 per tonne. The $100 per metric tonne increase is entirely attributable to market factors, half attributable to reduced premiums from the CRU forecast to the current spot, and the other half attributable to 15% increase in alumina prices since we last spoke in February.

The consolidated cash breakeven point as usual is the LME equivalent number that represents cash flow after maintenance capital expenditures, cash taxes, interest expense, SG&A and pension contributions, but excluding any discretionary capital spending.

With that, I'll turn the call back over to you, Mike.

M. Bless

Thank you, Rick. If we could just turn to slide 9 please, everybody, I'll make a couple of quick comments about what we'll be working on here over the last couple of months and then we'll get right to your questions over the next couple of months.

Okay. As you would expect, our priority here over the next couple of months is to find a solution for Mt. Holly's long-term power requirements. As we said, the plant competes favorably on every product and cost level other than the power price. But as you know, our fourth quarter power cost renders the plant simply uncompetitive and not viable over the long-term.

We need only to get this plant to around the median on the global power cost curve to make Mt. Holly viable through the cycles. We're looking at many options, as I said, both legislative and otherwise. Today it's difficult to predict exactly how the situation will resolve.

We're really proud of our employees at Mt. Holly. They've been working safely, productively and with great determination during an uncertain period, and we're thankful to them for that. Given what they've made of this plant, the stakes are simply too high not to exert every effort to find a solution and that's what exactly what we're doing, so more to come.

Turning to the Kentucky plants, as you've seen both Hawesville and Sebree are in good shape. Hawesville has now reached the full pot count and high purity production is strong. And, Sebree is operating very well.

For these reasons we're looking now preliminarily at the next phase of development for these plants. This on the one hand could include additional production capacity at Hawesville bringing back another line or more, as the high purity is badly needed in the US. It could also include investment in additional value-added products at Sebree.

Another option that we've been looking at could be a significant expansion of the Kentucky plants through the movement of production equipment from Mt. Holly. We've done a preliminary engineering study and the results were interesting enough that we're now doing a more detailed analysis. Obviously we'd only contemplate something like this in the worst case if we weren't able to find a way to make Mt. Holly competitive.

The consideration of investments in the US plants are, as you would expect, at an early stage given the uncertainty in the external environment. But we do want to be ready when the time comes.

In addition, we continue to refine the analysis of a value-added casthouse for Grundartangi. The product is certainly needed in Europe. We think Grundartangi would be a very competitive billet producer. It would also add efficiencies and other ways to the existing casthouse operation. And we continue to be confident that the issue is not if, but when this investment makes sense.

And lastly, we'll continue to advance our fair trade efforts. We're convinced as ever, as I've said, that illegal subsidies are the direct cause of harm to the US industry. We're also convinced they're not going to go away unilaterally. And so, thus we must pursue the enforcement to trade laws. We believe we are coming close to seeing some decided action.

And with that, Pete, I think we can ask the operator to turn it over for questions.

P. Trpkovski Thanks, Mike. Kerry, if you can go ahead and turn it over to questions please.

Moderator (Operator instructions.) And our first question comes from Jorge Beristain from Deutsche Bank. Please go ahead.

J. Beristain Hi, guys, yes its Jorge with DB.

M. Bless Hi, Jorge.

J. Beristain Mike, hi. I mean I can appreciate you're on a public call but is there a kind of a drop dead date with Mt. Holly beyond which you cross the Rubicon? And secondly, is any of the outlook of Mt. Holly in any way dependent on the global aluminum price? In other words if we saw another 20% rally in aluminum, would that change your stance or you're talking about making it competitive through the cycle and that's why you need to get the power price?

M. Bless Yes, you've answered the question on the second one but I'll add some more. But on the first, yes, the answer is yes, Jorge. As we've said, we don't like operating the business, and of course the most important aspect of the business it goes without saying is the power, on such a short-term basis. Just as a reminder here, we're operating under this new contract with the local power provider. And it's a three-year contract, but we have a two-month—we have the right to terminate with two months' notice.

In that respect as I said, we bought power through August. So it's a bit long-winded but the short answer to your question would be, we only have power through the 31st of August. We need to find a solution here over the next couple of months or we're looking at a decision which we don't want to contemplate at the beginning of July of whether we need to give that notice or not.

On the second part of your question, Jorge, as I said you've answered it. The reason we're so intent on getting at least to the mid-point is, and you follow commodities, so of course you know this is, if you're at the mid-point you have confidence that you can survive through the cycle. You're going to make money when the price is above the long-term median whatever that is these days. You'd probably suffer some losses—you will suffer some losses when you're below. But if you're at the median and you've got a plant with Mt. Holly's efficiencies and costs, you know that you're going to survive and you're going to make reasonable returns over the cycle.

And so, where the price goes, whether it went down $100 from where it is today or $150 to use your—or up another $100, that's really, that's very short-term thinking. We need to solve this for the long-term or else in our opinion we're simply kidding ourselves. The plant isn't competitive without a competitive power price. We're quite convinced we're looking at it the right way.

J. Beristain — Okay, fair enough. And just a follow-up. Has the recent Chapter 11 of one of your competitors caused any changes in the market that you're aware of in terms of perhaps they're changing their operating rates or there's expectation that they'll have lower costs going forward because of perhaps having some of their debt restructured? Could you make any comments to that effect?

M. Bless — Just so I'm sure, Jorge, about whom you're talking. Are you talking about Noranda?

J. Beristain — Yes.

M. Bless

Okay. So, let me take it one by one. On the smelter, as you may know, it's completely shut. And as far as we know and all we know is based on what they've said publicly, there's really no, certainly not any near-term I don't wish to speak for them, that wouldn't be my place, but just reading what they've said, there's certainly no at the very least near-term intent to reopen that smelter.

So, it's completely shut. It's been completely shut since sometime in March, I can't recall exactly when the last pot line regrettably came down. And so, it's really an NA answer to your question for the smelter.

They continue to be a very good supplier to us of alumina from the Gramercy Alumina Refinery. And so there we've seen no change at all. We continue to enjoy a good commercial relationship with those folks. They run a good business, they produce a good product. We continue to take it, we continue to perform under the—they continue to perform under the contract. So there, there has really been no change.

So, I guess that's a long-winded way of answering your question. We've really seen no change at all either in the marketplace or as it relates directly towards us.

J. Beristain Okay. Thank you very much.

M. Bless Thanks, Jorge.

Moderator (Operator instructions.) And now to the line of David Gagliano from BMO Capital Markets. Please go ahead.

D. Gagliano Hi, thanks for taking my questions. It's just a couple of quick ones. First of all, most of it's tied to the $1,550 updated cash flow breakeven figure, what are the assumptions for alumina and the Midwest premium embedded in that figure?

M. Bless Pete or Rick, please go ahead.

R. Dillon Sure. So, embedded in the breakeven, we're essentially using current spot, or when we spoke in February, we referenced the CRU forecast which also aligns to that spot rate today. So, the adjustment is just to get us to current market rate.

D. Gagliano It sounded like $250 alumina, something like that?

R. Dillon Yes, yes.

D. Gagliano Okay. And then just to round out that part of the questions. Were there any other changes when I look at the slides from last quarter, slides 11 and 12 for the full-year target, 2016 targets, any other changes, volumes, CapEx, anything else?

R. Dillon No other changes.

D. Gagliano Okay.

M. Bless And David just to reinforce if I may, what Rick said, you probably caught it. In that breakeven there are no, inside the company, no operational changes. We're still as I said on the exact internal cost structure, the only changes as Rick noted about half of that $100 is the mark-up of the alumina price from $220 to $250, i.e. current spot, and then the mark-down to current spot Midwest and EU duty paid.

D. Gagliano Okay, thanks. And then just in the first quarter results, what was the average alumina price that actually flowed through results?

M. Bless Rick, I'll leave that to you.

S. Harrison The average actual for the quarter was $220, but the impact on the results lagged.

R. Dillon Right. So there is the lag factor there. I don't have an average actual price. During the period that $220 is impacted by inventory and as we about last year we're kind of lagging. That's why we got such a benefit in the first quarter here. We'll see increased prices in the second quarter.

M. Bless David, it's the corollary to the point I made about the lag on the realized aluminum prices. So, all of that is yet to come. That ought to be if we run the business right a net benefit of course.

D. Gagliano Okay, that's what I was trying to get at.

M. Bless Yes, yes, absolutely.

R. Dillon Yes.

D. Gagliano All right, great. Thank you very much.

M. Bless Thanks, David.

D. Gagliano Thanks.

Moderator (Operator instructions.) And we have no more questions in queue. We do have a question from Tony Rizzuto with Cowen & Company. Please go ahead.

T. Rizzuto I'm glad I got in from right underneath the gun here, hi.

M. Bless Tony, we're not looking to run out of the room. We're here for the duration.

T. Rizzuto I know that, I know that. Listen, my question is on trade. Recently we saw the USW petition the ITC for Section 201-Relief there was a conference call with Leo Gerard and the senator from Oregon. A few days later the action was dropped and it appears due to lack of support from industry players. And I guess my question to you, Mike, is without the full support of the industry, what can we really expect, what can really be accomplished? And perhaps you can give us some further color as to what's going on out there?

M. Bless Absolutely Tony, that's a very good question. And let me specify the major difference between a 201-case on the one hand and the WTO subsidies case that we're seeking to have the government bring on the other end. They're vastly different things.

First, let me comment, we applauded the steelworkers for bringing that case, we weren't a part of it in any way. But of course we were rooting them on. A 201-case as I think you know having followed steel and other things it's a pretty, I'll use a term that maybe is overdoing it a bit, it's a pretty direct draconian thing. They're brought very, very rarely and it's sometimes by practitioners of trade, it's called putting up a wall.

So, it ignores, and underscore these words, ignores the source of the problem. And just I'll get back to that in the second piece, that's what we're targeting of course in the subsidies case. And just as, look, metals flowing in and we think the remedy ought to be some combination of tariffs and/or quotas to address that. That's why I think you've probably seen it. It makes sense to see opposition because it doesn't discriminate in terms of where the metal is coming from. And so, if you're somebody who's sending metal into the US from any country, Canada for example, this targets you.

The case we're bringing, or we're seeking to have brought I should say, is very different. It's a case in front of the WTO. It's specifically targeting the source of the excess exports out of China and ultimately imports into the US. And that's the illegal subsidies that are being given in China that aren't available to others that are being given in China to Chinese producers in contravention to global trade laws, WTO rules. As we all know China has been a WTO member for 15 years now.

And so, it attacks the source of the problem rather than the result. And that's, so I'm repeating myself now, Tony, I apologize, it's a very different construct.

T. Rizzuto — Mike, can you give us an idea as to the timing here and what we should be looking at or is this imminent? Can you put some framing around that?

M. Bless — I wish I could answer the question. If it were our decision alone, it would have already happened. Of course the case has to be brought by our government. It can't—the steelworkers of course had standing to bring a 201-case under the laws. This needs to be brought by our administration. And so, it's really up to them to decide whether it's a case that should be brought and then they bring it.

We've been very encouraged, as we said a couple of months ago and we can continue to say that with sincerity, by their interest in this, by the work they're doing on it, by their reaching out to us for data and such. But at the end of the day, it's not our call. And so, we just have to continue, we're continuing to work with them.

But, we are convinced to get it. They understand it without putting words in their mouth it's just a question at this point as to whether it's brought in and when. I would say, Tony, to speculate, if it's going to be brought, it should be within the next couple of months.

T. Rizzuto And to your knowledge, Mike, this is something that has uniform support out there?

M. Bless I don't know, Tony, I wouldn't want to lead you astray there. We've talked to a lot of people. Our task force only has two other members, as you know that's the United Steelworkers and Brazeway, which is a fine extrusion company, it's a customer of ours. And we've talked to lots of other folks as to what the support or lack of support would be if a case like this would be brought. I wouldn't want to speculate. It wouldn't be doing anybody any good.

T. Rizzuto I can understand the sensitivities. In the last call I do remember us having a conversation that you indicated that there could be some similarities to what happened in the 90s with this inter-government MOU. And I take it, unless I'm off-base here, but I take it that this is something that is going on right now amongst a variety of players in different Western countries that have a similar concern. Is that correct?

M. Bless — From what we understand, you take it correctly. There is a—I don't want to say universal but because that's a big word, but there is a broad degree of recognition of the source of the problem. It's out there for the world to see. We've spent a lot of time detailing it but even if one doesn't do that all one has to do is read the annual reports, quite frankly, and press releases of the producers. You'll see it put forth in loving detail.

T. Rizzuto — Thanks very much, Mike. And all the best to securing additional power you need at Mt. Holly.

M. Bless — Thank you, Tony. I really appreciate it.

T. Rizzuto — Thanks so much, cheers.

M. Bless — Thanks.

Moderator — Thank you. And now to the line of Michael Gambardella from JP Morgan. Please go ahead.

M. Gambardella — Yes, good afternoon.

M. Bless Hi, Mike.

M. Gambardella I guess, just wanted to follow-up on this whole trade case issue. Because I mean, to me it seems like there is a huge difference between steel filing a trade case and aluminum filing a trade case, in the sense that steel, especially in the US, is a very US centric business in terms of the producers, with the exception of ArcelorMittal, they're all domestic companies. You don't have multinationals.

And with aluminum I mean, I would think that some of the major players, namely Alcoa, have interest in China and wouldn't want to disrupt that. I mean, could you talk about the differences there and in terms of filing a trade case against Chinese producers in what is clearly a global market as opposed to in steel where you have the vast majority of the producers are US-based companies not global multinationals?

M. Bless Sure, I think I appreciate the difference there, Mike, as you've described it. US trade law is pretty straight forward, if counter-available illegal subsidies are causing harm to US industry, there's basis for the United States to bring a case before the WTO; it's pretty straight forward.

As to other producers and the opinions that they may or may not have, it's not my place. I hope you wouldn't wish me to; they wouldn't speculate about what their opinions might be, whether they might support this or not. That's outside my right to talk about quite frankly or my ability.

M. Gambardella — I understand. All right, thank you.

M. Bless — Thank you.

Moderator — (Operator instructions.) And now to the line of John Tumazos. Please go ahead.

J. Tumazos — Thank you. With the very low level of US aluminum production, the four aluminum refineries in Louisiana and Texas must have a little more room. The Sherwin refinery of Glencore has gone through reorganization. And Noranda has obviously lost their smelter customer. Alcoa has taken Pt. Comfort down. Are there opportunities in the current market to have better raw materials terms whether it's from the refineries or via $2 natural gas which is highly favorable?

M. Bless Thanks, John, I would agree with your last comment. Two dollar natural gas given the importance of the gas price to refine bauxite into alumina is a good thing if you're an alumina producer. I'm not sure I would agree with your comment that it's necessarily better. That's going to depend of course at any given time on led by gas, but other commodities like caustic and other, and bauxite pricing.

What's your alumina cash cost is of production, of course, versus the world spot price or any other contractual price that one can negotiate. So that changes every day.

If I understand your question, sure, as you would expect, we're looking at all these situations. As I said, we're a very happy customer of Gramercy, we've been for a long, long time. As you well know, we used to a part owner.

And so, we'd be very happy continue to be a customer, but we're watching the situation closely because there's a lot of factors at play. So, I'd say watch the space. We're clearly, I want to assure you if that's the root of your question, that we're tuned in and paying attention. But for right now there's really nothing to be done than continue to take product from both of those plants as we're contracted to do.

Moderator (Operator instructions.) And we have no one in queue at this time.

M. Bless Okay. Thank you, Kerry. Thank you to all of you on the phone for joining us this afternoon and we look forward to speaking with you again in late July. Take care.

Moderator Thank you. And ladies and gentlemen, that does conclude our conference for today. You may now disconnect.