

BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

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Ferrosilicon from Russia and)
Venezuela) (Inv. Nos. 731-TA-1224-1225
_____) (Final)

**Testimony of Edward Hopkins
General Manager, FerroAtlantica North America**

1. Good afternoon. My name is Ed Hopkins. I am the general manager in charge of FerroAtlantica's North American operations. I have been with FerroAtlantica for more than 15 years. FerroAtlantica North America is the exclusive U.S. distributor for FerroAtlantica's global ferroalloys business, including ferrosilicon produced by FerroVen in Venezuela. In addition, FerroAtlantica North America distributes in the United States non-subject ferroalloy products produced by FerroAtlantica in Spain, France, and South Africa, as well as non-subject silicon metal. For this reason, I am familiar not only with the market for regular grade and low aluminum ferrosilicon produced by FerroVen, but also with the market for specialty grade ferrosilicon and non-subject silicon metal.

2. I appreciate the opportunity to be here today to address the antidumping duty petition on ferrosilicon from Venezuela. I would like to begin by telling you a little bit about the U.S. market as well as our place in the market

as someone who sells ferrosilicon from FerroVen. I believe it will become evident from this description why imports of ferrosilicon from Venezuela are not harming or threatening the domestic ferrosilicon industry.

3. The large majority of FerroVen's production is of the regular grade 75% ferrosilicon, but Ferroven can produce some low aluminum ferrosilicon with aluminum levels under 0.5%, and a smaller amount of high purity with aluminum content below 0.1%. However we cannot produce the high purity, low titanium grade at FerroVen. FerroVen is only able to produce low aluminum through additional further processing so it is done less frequently and it is rarer that FerroVen can produce high purity. As a consequence, we have only participated in a very limited way in these higher grade products. We have sold low aluminum only to very few customers; another customer was supplied with high purity because the steel producer's regular domestic supplier could not supply the contracted quantities.

4. U.S. producers are in a very different situation. The domestic producers have access to higher quality raw materials – specifically quartz and coal – and therefore they make low aluminum ferrosilicon naturally – essentially, almost anything they produce could be sold as a low aluminum product. Therefore, for U.S. producers, low aluminum is similar to standard grade product from a production point of view.

5. The U.S. market for low titanium and other specialty products is met almost exclusively by Globe and CCMA along with some imports from non-subject countries such as Brazil and Canada. Very high purity low titanium ferrosilicon is consumed by specialty stainless and electrical steel makers. Foundry grade and inoculants are consumed by foundries. Venezuela does not compete at all in the low titanium or foundry sector of the market. As I mentioned a moment ago, FerroAtlantica North America has imported limited quantities of low titanium products from Europe.

6. I saw that Petitioner said in their brief that ferrosilicon *of the same grade* is interchangeable. I agree if we are talking about the *same* grade of product but *different* grades of ferrosilicon are not interchangeable. Standard grade cannot be used when low-aluminum or a low-titanium specialty grade is required. While low aluminum and specialty ferrosilicon grades could be used in standard grade applications it would not make any financial sense to do so. Therefore, I do not believe that anyone in the market would say that regular grade, low aluminum or other specialty grades are interchangeable.

7. The vast majority of FerroVen's sales to the United States are made pursuant to quarterly or annual contracts. We do not have any short-term contracts of less than 45 days. We have to contract in this way because we want to be reliable and consistent suppliers to this market so we do not have to compete

on the basis of price. Prior to late 2012, I rarely encountered U.S. producers bidding on the regular grade or the low aluminum contracts.

8. We import product whenever it is available from Venezuela and we inventory it in the U.S. and ship it as needed under the contract. So the patterns of imports from Venezuela may seem erratic. For example, the import data appears to show imports from Venezuela increasing in 2014 – but a boat that was supposed to arrive in December of 2013 didn't make it to the U.S. until January of 2014. This happens all the time. If I didn't sell from inventory, I would not be able to participate at all in this market. And, frankly, it's really irrelevant when the material enters the U.S. since my shipments to the customer represent my actual sales in the market.

9. As Mr. Larrea has discussed in more detail, FerroVen, which is the only producer of ferrosilicon in Venezuela, has only a limited supply of Ferrosilicon available to export to the United States. In consultation with the local staff in Venezuela, FerroAtlantica establishes an annual sales plan for FerroVen. That sales plan is normally provided in October-November of the year and sets the sales plan for the following year. Based on that sales plan, I know how much ferrosilicon I will have available in the coming year, and I use this information to determine what contracts to bid on. That process may seem quite logical and organized but we have to deal with all the issues in Venezuela that will interfere

with our plans. Every step in the process – from the purchase of raw materials, to the production of the ferrosilicon, to its shipment – encounters problems in Venezuela.

10. Because of the limited quantity of ferrosilicon available to me from FerroVen, I am normally “sold-out” of my ferrosilicon allocation by the end of the first quarter of each year on long term contracts. I then deliver under the contracts throughout the course of the year. I am thus unable to meet new orders that may come in after the first quarter, and typically I am unable to bid on new contract business for a large segment of the year. So I am forced to submit many “no bid” responses to requests for quotes.

11. In addition to having a limited supply that we can import from FerroVen, another challenge we face is customer perceptions. Specifically, many customers consider that it is risky to enter into contracts for the purchase of ferrosilicon that is produced in Venezuela. Electricity shortages and economic instability in Venezuela impede our ability to gain new customers. Given these challenges, much of our business is done with long-term existing customers who have a comfort level with importing from FerroVen and doing business with Ferroatlantica for many years.

12. As economic conditions in Venezuela have deteriorated over the last several years, our position in the U.S. market has declined significantly. In the

period from 2005 to 2007, Ferroven exported an average of 40,000 tons per year to the U.S. Following the U.S. recession of 2009 and 2010, and the increasing instability in Venezuela, our imports to the U.S. from Ferroven dropped dramatically. Our imports are still about half of that level today.

The U.S. Market

13. I would now like to turn to the U.S. ferrosilicon market. An important feature of the U.S. market is that there is not nearly enough domestic capacity to supply the market demand. It is widely known from public sources that Globe and CCMA do not have the capacity to meet even half of U.S. ferrosilicon demand. As a result, large quantities of imports are an essential feature of the market and especially in the market for regular 75% ferrosilicon and low aluminum ferrosilicon. Imports from Venezuela have been a constant part of that import supply for regular grade and, to a much more limited extent, low aluminum ferrosilicon since 1999.

14. Because Globe and CCMA do not have the capacity to supply the entire market, they made the rational business decision some years ago to focus on selling their available capacity into the specialty and foundry grade segments of the ferrosilicon market where returns are higher due to the more specialized nature of the product. Globe's primary business always has been silicon metal because it is generally a higher margin product. However, when the silicon metal price

premium over ferrosilicon began to narrow in 2012, Globe shifted some of its capacity into the regular grade and low aluminum ferrosilicon. In 2012, Globe's Beverly, Ohio plant converted one furnace that produced silicon metal to ferrosilicon. It is our understanding that none of the ferrosilicon facilities are currently producing silicon metal.

15. At the same time that the silicon metal market was declining, the specialty and electrical steel industries, which require high purity, very low Ti ferrosilicon, were performing poorly. The low-ti market remained depressed in 2013. This has been the principle focus of the domestic producers for some time. CCMA primarily produces ultra-high purity and foundry grade ferrosilicon. Very small amounts of regular grade are produced when CCMA is shifting production between high purity and foundry grades. It is almost a by-product for CCMA.

16. However, as a result of this reduction in demand in these more specialized, high valued products, the domestic producers began to shift their production from specialty grades to regular grade and low aluminum,

17. Prior to 2012, we very rarely saw the U.S. producers bidding on annual contracts to supply steel producers with regular grade or low aluminum ferrosilicon. Our competition for this business was always Russia and other non-subject imports. Given the U.S. producers' long history of focussing on the specialty segment of the market, and lack of track record in supplying the regular

grade sector, U.S. producers had some credibility problems with the purchasers. Everyone was a little surprised to see them wanting to get into this market segment and frankly, purchasers questioned how long that would last. Our sources tell us that U.S. producers sold some in the spot market. That hurt us because those prices affected our indexed contracts. Globe and CCMA also went in very aggressively to bid on the shorter terms contracts.

18. Of course, U.S. producers were also successful with long term contracts. In the case of one customer that I am aware of, Russia had been supplying that customer for years and we had a small amount of the supplementary supply to that customer. Globe came in and dramatically underbid both of us and took the business. This opportunistic approach to the market was very detrimental to pricing in my mind, but U.S. producers had a great deal of success with this approach and have established a strong customer base.

19. Customers are aware that if the market turns up for the high purity and foundry grades, Globe and CCMA will shift back to the specialty grades and will be less interested in supplying the regular grades of ferrosilicon due to capacity constraints. In fact, we are hearing rumors that this is already happening. In fact, in one particular circumstance, I lost bids to Globe for two customers that I had supplied in previous years. Although Globe had not previously bid on this business, they won the contract by underselling our bid. In late 2013, those

customers contacted me because they were having problems getting on-time deliveries of the contracted quantities and wanted to know if I could help them with spot sales. Unfortunately, I was sold out for the year and could not help them.

Reference Pricing In U.S. Market

20. The primary sellers in the spot market are traders of non-subject ferrosilicon from China, Norway, Iceland, and Canada, and to some extent, Globe and CCMA who also sell in the spot market. Of course, China has the largest capacity in the world for ferrosilicon, and thus demand and supply conditions in the Chinese market affect pricing. That information is widely available through publications and Chinese traders who periodically enter and exit the U.S. market.

21. We have seen that these other sources of supply are increasing into the U.S. market. That is not surprising since the trade cases have attracted them back into the market. They are ready, willing and able to replace us in the standard grade product. Within that grade, we are dealing with a commodity product.

22. I try to stay out of the spot market. Reference prices based on the spot market are not affected by our sales to any degree at all. To the extent that reference prices affect pricing in the U.S. regular grades that is a result of non-subject imports and U.S. product sold in the spot market.

Concluding Remarks

23. As I have discussed Globe and CCMA have long opted to focus their limited capacity on supplying specialty grade ferrosilicon and silicon metal. Those markets turned down in the past two years or so for reasons that had nothing to do with imports from Venezuela. I don't compete in the specialty segment. U.S. producers' response was to opportunistically shift supply to the regular and low aluminum segments. Regular grade pricing has been steady over the entire period. However, because U.S. producers lacked a track record of reliably supplying this market, they were forced to cut prices to gain market share in this segment. If these companies are experiencing difficulties it is due to the poor performance in the specialty market segment and their lack of a track record in the regular grade segment, not competition from Venezuela. FerroVen has been in the U.S. market for over 15 years and the quantities we sell are very small and predictable. I have no need to undercut prices because I don't have additional tonnage to sell.

24. Thank you. I would be happy to answer any questions you have.