

TESTIMONY OF JOHN CROSS

Good afternoon. My name is John Cross, and I am the president of Steelscape LLC, an American producer of corrosion-resistant steels located in Kalama, Washington, and Rancho Cucamonga, California. Steelscape does not manufacture or sell hot-rolled steel in the US. Instead, we purchase hot-rolled coil, largely from our two owners, BlueScope Steel Ltd. of Australia and Nippon Steel & Sumitomo Metals Corporation of Japan. We then cold-roll all the hot-rolled coil we purchase in our Kalama facility, and either galvanize the cold-rolled steel in Kalama or send it to our Rancho Cucamonga facility for zinc-aluminum coating. About half of our cold-rolled coil goes to Rancho, and the other half stays in Kalama. We also paint most of the coated steel we produce in our two facilities, and sell most of our products to the building and construction industry. Steelscape employs roughly four hundred people in our two facilities in the cold-rolling, coating and painting of our products for the American market.

It is my belief that for a number of reasons, the Australian and Japanese hot-rolled steel that Steelscape imports for our coated steel production does not compete with hot-rolled steel produced by US mills. With our facilities located entirely on the West Coast, Steelscape cannot purchase hot-rolled steel economically from US mills located east of the Mississippi, because of high rail

freight costs. Although there is some limited hot-rolled steel available on the market from western US mills, these mills have proven historically unable or unwilling to provide us with our needs for hot-rolled coil. And Steelscape is not situated or structured to receive significant volumes of hot-rolled coil by rail, which is how it would have to be delivered by US mills; it is structured to receive steel by ocean vessel.

As a result, Steelscape has not historically been able to obtain meaningful supplies of hot-rolled steel from domestic suppliers. Even after most foreign hot-rolled producers were hit with high antidumping and countervailing duties, Steelscape has not purchased a single additional ton of steel from domestic mills. The hot-rolled coil we purchase from abroad therefore does not displace any domestic hot-rolled coil produced in the United States. Let me explain in greater detail why this is so.

The lion's share of the hot-rolled steel produced for the market in this country is produced by mills located in the Midwest – around the Great Lakes. To ship steel to the West Coast, these mills have to send their steel by rail across the Rocky Mountains. This is an expensive proposition. BlueScope has included in its brief a table comparing freight rate quotes Steelscape has received from actual US mills to deliver to Kalama, and ocean freight rates for delivery from Australia and

Asia. Although freight costs do vary from mill to mill, in general we have found that rail freight costs from US mills run about \$65 a ton higher than the cost of ocean freight from Australia and Asia.

This is a very significant difference to us. Sixty-five dollars a ton can be anywhere between ten and fifteen percent of our raw material cost, even when the ex-mill price of hot-rolled coil is the same. An increase of that amount in our raw materials costs would, in most cases, virtually eliminate the profit we would make on the sale of our corrosion-resistant coils. That makes purchasing hot-rolled coil from east of the Mississippi economically impracticable.

In addition, rail freight deliveries have often been an iffy proposition. Rail deliveries can be challenging at certain times of the year due to commodity traffic and weather. On the West Coast, we have encountered difficulties even shipping our own cold-rolled steel to California in the autumn months because of high demand for rail transportation of grain exports. Similarly, shipping across the Rocky Mountains is also subject to considerable weather delays in winter. So, we just cannot be sure of a steady, reliable supply of hot-rolled steel by rail.

Of course, US mills east of the Mississippi are not the only domestic sources for hot-rolled coil. There are two mills, Evraz, in Portland, Oregon, and California Steel Industries (CSI), in Fontana, California. Evraz, unfortunately, does not

manufacturer hot-rolled steel in gauges that are thin enough to be used by our Kalama facility. Although we have run trials of Evraz steel from time to time in the past, we have found that it cannot be used by our machinery.

The other US producer in the West Coast is CSI which in fact is located just a few miles from our facility in Rancho Cucamonga. Our Rancho facility, however, does not have a cold-rolling mill, so it would only be able to purchase cold-rolled steel, not hot-rolled coil, from CSI. CSI is a producer of cold-rolled and coated steel that competes with our Rancho facility. It has not been willing to sell cold-rolled steel to us, for reasons detailed in BlueScope's brief.

We have had discussions with CSI in the past about purchasing their hot-rolled steel for us. Doing so, however, would require the steel to be shipped from CSI's mill in Southern California to our facility in Kalama, Washington, which would require additional freight costs. And so, we have not been able to come to an arrangement with CSI to purchase its steel, although we have tried.

Beyond these difficulties we have encountered in seeking domestic supply for our hot-rolled coil, I have to state that Steelscape is fundamentally not structured to receive hot-rolled coil domestically. Our facility in Kalama, where we receive all of our incoming supply of hot-rolled coil, is located immediately adjacent to a deep-water port facility on the Columbia River. Shipment by ocean

vessel is not subject to winter weather delays, as the Columbia River does not freeze in the winter. Further, the port is only a few hundred yards from our hot-rolled receiving area. An entire vessel, with up to a month's supply of steel, can be offloaded and sent to our stock yard in a matter of two days. Entry by ship is economical, efficient and quick.

In contrast, our mill is not structured to receive large quantities of coil by rail. As I said, Steelscape ships about half the cold-rolled coil we produce to our Rancho facility for zinc-aluminum coating and painting. This requires us to use a large number of rail cars to ship the cold-rolled steel out. Doing so taxes our crane capabilities and staff, especially when we purchase even small quantities of hot-rolled coil from our affiliate in Ohio, North Star BlueScope. If we were to purchase our hot-rolled coil needs from domestic mills, we would have to bring the steel in by rail, to the same space we use to ship cold-rolled out. That could mean doubling or even tripling the number of rail cars in our facility. We just don't have the space to hold that many cars in our Kalama site, and given the adjacent properties, our options to accommodate the additional cars would be extremely limited.

As I think you can see, purchasing our hot-rolled steel requirements from US mills is not a realistic possibility for Steelscape. We cannot obtain that material

economically from mills east of the Mississippi, and we have been unable to purchase from West Coast suppliers. We are structured to receive steel by ocean vessel, and could not purchase our hot-rolled coil requirements from domestic mills without incurring prohibitively high additional costs. As a result, US mills simply do not compete with our foreign suppliers for our needs for hot-rolled coil.

What this means for the long term is that restrictions on the importation of hot-rolled steel as a result of this investigation threaten Steelscape's viability as a US producer of corrosion-resistant steel products. We employ some four hundred people in our two facilities, and these are good jobs with good pay. Particularly in the Pacific Northwest, jobs like this are hard to come by. Due to the continued decline of the logging industry, Steelscape has become one of the few remaining employers offering productive, high wage jobs to American workers in the area.

As for California, I was recently in Rancho visiting our facility there when I was approached by a number of our employees, members of the USW. They came to me to thank me personally for fighting in this proceeding to assure that our operations in California can continue. These workers understood well that their jobs will be in peril if we are not able to import hot-rolled steel from Australia and Asia, as our plant is designed to do.

In closing, let me say that as a US producer of coated steel products, I am very concerned about the future of our operations if this case should result in high duties on our import sources. Steelscape, and our Australian and Japanese suppliers, are in a unique position. Steelscape must have imported steel to survive as a US steel producer. High dumping duties on Australian and Japanese steel threaten our very existence as an American provider of good, productive jobs to American workers.

Thank you.