**BEFORE THE
U.S. INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.**

***CUT-TO-LENGTH CARBON STEEL PLATE FROM
CHINA, RUSSIA, AND UKRAINE,***
INV. NOS. 731-TA-753, 754, AND 756 (THIRD REVIEW)

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Good afternoon. My name is Tom Prusa. I am a professor of economics at Rutgers University and I am here today on behalf of the Ukrainian producer Metinvest to discuss economic considerations that the Commission should consider in this review.

If the order on Ukraine is revoked, there will not be a significant volume of U.S. imports from Ukraine. The volume of imports from Ukraine has been low during the period of review – about 18,000 STs over the last 3½ years.

This morning the domestic industry spoke of the large plate imports from Ukraine between 2004 and 2008. The domestic industry is ignoring two key factors: (1) the raging steel bull market that caused buyers to scramble for supple and (2) that Ukraine plate producers are currently severely hampered by the war. In each year of the bull market the domestic industry had operating income of at least 20%. There were many, many reports of U.S. buyers unable to source plate from U.S. mills – widespread shortages were the order of the day. As a result, U.S. buyers turned to foreign suppliers including Ukraine. Only during the bull market of 2004-08 did Ukraine ship more than a miniscule volume.

During this period of time Ukraine's suspension agreement was in the form of a quota of 174,000 ST. Even though Ukraine could have sold more plate during that period of time, it did not.

I would also like to make one additional point regarding the 2004-08 period. As the record shows, the domestic industry made record profits over a 5-year period. Yet, even in the midst of this record market the domestic industry reported capacity utilization rates in the mid-70s to low 80s. Full capacity utilization by this industry is simply not feasible. On the contrary. domestic industry can be quite healthy when its capacity utilization is below 70%.

The capacity issue also has relevance for Ukrainian producers. Nominal capacity far exceeds practical capacity. Even if one is willing to assume reliable raw materials availability, regular electricity, and a workface that is able to commute to work safely, Ukraine mills only produce a limited range of plate products. While the domestic mills have emphasized Ukraine's shipments to the EU, they failed to mention that the EU's product specifications and requirements are far more suitable for Ukrainian producers than are the specifications required in the U.S. market.

Moreover, the domestic industry ignores the logistical and delivery complications caused by the war. As you have heard, the war is literally in backyard of Ukraine's plate producers – 20km. In this map of Washington I give a perspective of the equivalent distance from 500 E St, SW.

The Commission should also consider how different conditions of competition are since the last review. A calamitous war has been thrust upon Ukraine. Also, the last review was conducted during the heart of the Great Recession. In light of the sharp drop in demand and the adverse effects of the Great Recession on the industry, the Commission was justified in its findings of vulnerability. That is simply not the case today. Between 2009 and 2014 U.S. plate consumption increased by 107% and domestic production is up by 84%. Between 2012 and 2013 plate consumption was up 10% and production was up 6%. This is industry is not vulnerable. Growing yes, vulnerable no.

Using data collected by the USITC in this review and in the 2011 plate sunset review, one can see how quickly the industry rebounded from the Great Recession. Unlike its pre-restructuring incarnation, the current domestic industry rebounded quickly – returning to profitability in the second half of 2010 and to double digit profits by 2011.

The strength of the domestic industry can also been seen in other statistics. For example, capacity utilization fells sharply in 2009 but then significantly rebounded in 2010 and henceforth has maintained good utilization rates.

Another issue the Commission must consider is the role of non-subject suppliers in the U.S. market. While the domestic industry claims that increased non-subject supply makes it more vulnerable to imports from Ukraine, the far larger issue is how non-subject suppliers have effectively cornered the market. Non-subject suppliers are already fully serving the needs of U.S. buyers. The Commission's historical record shows that U.S. buyers have always purchased about 80% or more of their plate from domestic firms. Foreign suppliers serve the residual. If Ukraine producers were to re-enter the market, they would primarily compete with other import suppliers.

Consider the dilemma facing a U.S. buyer consider importing plate. On the one hand it could purchase from a known non-subject supplier. The buyer will know the finish and the quality of the plate. It will know that the supplier will deliver the product with the desired chemistry, dimensions, and flatness. Equally important, the non-subject supplier will have reliable delivery terms. Neither the raw materials nor the finished product will pass through a war zone.

Now consider the possibility of purchasing from Ukraine. As a threshold matter, the Staff Report indicates that the quality of Ukraine plate is below both U.S. plate and non-subject plate. Ukrainian mills are unable to provide many products desired by U.S. customers. This limits the portion of the U.S. market accessible by Ukrainian plate. Moreover, given the lack of supply over the last five years, many buyers will not have qualified Ukrainian plate for supply.

As pressing as the quality concerns are, the uncertainty of supply due to the war is even more difficult. Can U.S. buyers actually count on the projected delivery window? Will the plate even be produced within the delivery window? If produced, will the plate be held up along the way due to a rail problem or problem at a port?

I am not saying that Ukraine will not be able to produce any plate. I am saying that the production and delivery challenges confronting Ukrainian mills will raise red flags for U.S. buyers. For many, given the availability of U.S. plate and the ready availability of reliable, non-subject supply, many buyers will decide not to gamble on Ukrainian plate.

The final comment I want to note regarding conditions of competition is that a significant fraction of plate imports are purchased by U.S. mills themselves. The exact amounts are confidential, but the point is that the U.S. mills claim that every ton of imports means lost production and jobs. Their own purchases tell a different story.

The domestic industry is not vulnerable. U.S. industry has restructured and strengthened since the original threat determination. The restructuring and mergers over the last 18 years have provided previously unachievable pricing power to the domestic industry.

As shown on this chart, the domestic industry's many, many complaints about declining plate pricing does not account for declining raw material costs.

One facet of the industry's success is its major investments designed to make its facilities more competitive. ArcelorMittal's new plate heat treating line; SSAB's new heat treat facility; and Nucor's new 120,000 ST normalizing line are three noteworthy developments. The U.S. mills were far more modern than Ukrainian mills in 1998 and they are light-years ahead now.

The domestic industry main claim to vulnerability appears to be the closure of Evraz's Claymont mill in Delaware. This claim only makes sense if one knows nothing about that mill. Since Evraz has elected not to participate in today's hearing I'll comment on Claymont. The mill was built in 1917 in a poor location. It was high cost and was long plagued by environmental problems that continue to yield large claims. In fact, the mill's recent financial problems are hardly new: the mill has been bankrupt, had numerous owners, and was previously shuttered multiple times. In fact, Claymont was owned by Chinese investors for almost 20 years.

At the cusp of the record boom market, a private equity firm with no steel making experience bought the mill for $74M. Then, financiers do what they do – they extracted as much cash out of the mill as they could. During the "go go" years preceding the crash, the private equity firm issued hundreds of millions of dollars in debt and then transferred much of the cash to themselves. With the mill burdened by debt to the tune of $400/ton, financiers somehow managed to find a buyer --- the Russian firm Evraz. Almost immediately following the sale, Evraz began marking down the value of the assets and recently closed the mill. In other words, a poor asset has been shuttered, thereby strengthening the US industry.

The strength of the U.S. industry is also witnessed in their strong export performance – as documented in the Staff Report, the domestic industry exports a significant volume at HIGHER prices than on their U.S. sales. These exports are a clear indicator that the domestic industry is internationally competitive. I also want to draw attention to the U.S. producers' commentary on why they don't export more volumes. U.S. producers identified transportation costs and limited foreign sales and distribution networks as two reasons why they do not export larger volumes. I note that these are the same two reasons offered by Ukrainian producers why will be challenged to expand their exports to the U.S. market.

Going forward, the domestic industry is well placed to successfully compete both in terms of volume and profitability. This is not the same domestic plate industry that came before the Commission two decades ago and received an affirmative threat determination. The old domestic industry had a capacity of about 9M STs; today's plate industry has a capacity of more than 12M STs. The industry regained its competitiveness by closing inefficient production and investing in new, high value-added capacity.

Today's industry is well placed to serve the needs of U.S. customers in a way Ukrainian's capacity simply cannot. The U.S. industry has weathered the current, moderate downturn well, and its strong and persistent pricing power will enable it to continue to mark-up its costs and sell plate at a profit.