

Testimony of Jerzy Kozicz
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Good morning. I am Jerzy Kozicz, Managing Director of CMC Poland, the largest long steel producer in Poland. I appreciate this opportunity to appear before you to share CMC Poland's perspective on the European market for rebar and to discuss the negative effects that Latvian imports have had on the market in Poland in the last two years. I will also address certain statements made by the Latvian producer, Liepajas Metalurgs, or LM, in their submission to the Commission.

During the last two years, the Polish rebar market encountered substantial rebar imports from Latvia that accounted for more than 20% of Polish domestic apparent rebar consumption. In 2011, based on Eurostat data, Latvia exported nearly 300,000 metric tons of rebar to Poland while the Polish Ministry of Finance data showed only 20,000 metric tons of rebar imported from Latvia. The same is true for the first eleven months of 2012 – Latvia exported 237,000 metric tons of rebar to Poland while the Ministry of Finance data showed only 12,000 metric tons of rebar imported from Latvia. As these data show, along with private investigation reports and media reports, a majority of the rebar exported by Latvia has been sold in Poland pursuant to a fraudulent VAT evasion scheme that allows Latvian rebar to be sold at prices lower by nearly the value of VAT (23%).

As documented by the Polish Steel Association, some of LM's customers in Poland undersell the market by 5 to 20 percent and disappear after 2 to 3 months. These sales have had devastating effects on Polish producers. Because these imports evaded VAT and therefore were low priced, they captured a large share of the Polish rebar market at the expense of Polish producers. In 2012, rebar production in Polish steel mills decreased by 15% as compared to 2011. The massive scale of VAT fraud on rebar in Poland made it impossible for CMC Poland to compete with LM's goods in the domestic market. CMC was forced to export at marginal prices and reduce production and employment.

With the discovery of this fraud, Polish authorities are now taking steps to end this practice and are pursuing legal actions against these fraudulent schemes. In fact, media reports state that some of the distributors of LM's rebar in Poland have been arrested. For these and other reasons, Latvian imports of rebar into Poland have recently declined.

LM is in severe distress and needs new markets as it seeks to increase sales. The situation is so serious that LM has sought financial support from the Latvian government, which had previously guaranteed the loans to buy its furnace.

Before this hearing, I read LM's submission to the Commission, and I am quite skeptical about some of LM's assertions. For instance, LM claims that its primary markets – the EU, Algeria, and Russia – are doing extremely well and will

be strong markets for LM's rebar exports over the next few years. This is certainly not true for the Polish market. The Polish economy is struggling with a Eurozone crisis and the Polish construction market faces huge difficulties.

In Algeria, rebar capacity is increasing substantially, with new capacity coming online as early as this year. This means that there will be less of a need for imports from Latvia. And, Latvian rebar must compete with rebar imports from Spain and Italy. Both of these countries have a substantial freight cost advantage due to their close geographic proximity to Algeria.

Russia is also boosting its rebar production capacity, which will displace imports of rebar into Russia. In fact, as its capacity increases, Russia is expected to again become a net exporter of rebar.

Finally, LM claims that it does not have an incentive to ship to the U.S. market. In my opinion, with other markets closing, it is quite probable that LM will look for new rebar outlets. The U.S. market is attractive to foreign producers and given LM's very poor financial condition and need to raise cash immediately, it is probable that Latvian rebar will return to the U.S. in large quantities. This is particularly true given the low freight costs involved in shipping to the U.S. market, especially when using large loads.

In conclusion, LM is forced to be export-oriented due to a small domestic market, and it is quite likely that LM will take different measures to increase

revenue. In my opinion, if the order on rebar from Latvia is lifted, LM may dedicate half of its production towards the U.S. market with low-priced rebar. Producers in Poland are still coping with the effects of the large volumes of VAT-evading, low-priced Latvian rebar that destabilized the Polish market.

Thank you.