TESTIMONY BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION
Stainless Steel Bar Sunset Hearing
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Good morning, Mr. Chairman and members of the Commission. My name is Dan O'Donnell. I am a board member of Ugitech USA, a subsidiary of Ugitech S.A. and the exclusive distributor for all Ugitech products sold in the United States. Ugitech S.A. is also a subsidiary of Schmolz + Bickenbach. I have been with Ugitech USA since June of 1990 when the company was created in the United States and have worked in the specialty steel industry since 1968.

I appeared before you last year in the hearing on stainless steel wire rod, a product that we also sell, and I have a similar experience to share with respect to stainless steel bar. That is, Ugitech USA is not, never has nor ever will be, in business to increase our U.S. market share of low-priced, or low value-added products. Nor are we focused on volume. We are in business to make a profit by selling the highest-profit product possible and that product is certainly not what we consider to be commodity grade bar. This has always been true for us, but never more so than today. Unlike five years ago, today we compete in a U.S. market increasingly dominated by one low-cost, low-priced producer. That domestic producer – North American Stainless – has made it impossible for Ugitech, and I'm sure the other domestic producers, to compete in many segments of the market. The limited amount of bar we do sell is aimed at end users who are willing to pay more for a product that is of higher quality.

In addition, and perhaps more importantly, since the investigation Ugitech has made a direct investment in the U.S. stainless steel bar industry. In June 2007, we completed the first phase of our investment in a greenfield stainless steel bar facility in Batavia, Illinois. Output at this mill is expected to be around 10,000 tons per year by 2012. As production increases, we have already scheduled corresponding decreases in import volumes from our mills in France and Italy.

I would like to take a few minutes this morning to talk more about the changes in the U.S. market in the last five years that have led to our investment, as well as our business model and expectations of the future should these orders be revoked.

First, changes in the market:

U.S. demand for stainless steel bar is unprecedented and forecasted to continue. This is the primary reason behind our decision to start production here in the United States. As a result of this increased demand, the U.S. market for stainless long products has been able to undergo a fundamental restructuring. In particular, North American Stainless, a newcomer that built its operation from scratch, began production of stainless steel bar in 2003 and is well on its way to dominating the market, as it does with stainless steel wire rod. NAS now dominates the commodity market for bar and is setting the price. Its aggressive pricing practices mean that there is little room left in the market for the other U.S. producers, and even less for Ugitech. We cannot and will not compete head to head with NAS.

This trend leads directly to our business model for the US market:

As you can see by what we've put on the record but can't discuss publicly, Ugitech's product mix is not concentrated in the products that make up the vast majority of the U.S. market. We have always sold high-end specialty products almost exclusively to end users who manufacture precision-machined parts where the quality and reliability of the product is critical. The majority of our sales are in two proprietary product lines – SMQ™ and UGIMA XL™, a patented product. These products offer superior tolerances, consistency and surface quality. This material is not made by the domestic industry. In fact, all grades and sizes of the UGIMA product were excluded from Section 201 tariffs by the Commerce Department because they were found not to compete with domestic bar.

We have long-standing end-user bar customers who represent a very small part of the U.S. market and are willing to pay a premium for these products and services. We sell very little to distributors. Our customers are the primary reason we continue to sell bar in the U.S. market. They are also the reason we invested in the Batavia mill – we transferred the technology for SMQ™ and UGIMA XL™ to the United States to bring the quality control and technical support closer to the customer.

We have already decreased our imports from our European mills, as specified in our pre-hearing brief, and will continue to do so as our U.S. production increases.

Beyond this, our mills' business model also prevents us from being competitive in all but the specialty bar market:

With regard to the extremely small level of imports we will continue to bring in, we are not able to sell at whatever price the market sets as many other producers do. To the contrary, if our customers will not buy at the price we can afford to sell, then we do not sell. Our mills in France and Italy are running at full capacity and have a very strict allocation practice. If we cannot establish a certain level of profitability, our mills will not give us any product to sell.

As a representative from our French mill testified to you last year, since 2002, Ugitech as a group has mandated certain profitability margins. All business units within Ugitech are required to review every product sold in every market on an annual basis and forecast whether a certain return can be met. Where this margin cannot be forecasted with reasonable certainty, production capacity is not allocated.

Based on profitability estimates submitted by Ugitech's distribution units, capacity is allocated among Ugitech's two primary product lines – bar and wire rod. For stainless bar in 2006, this was almost three-quarters of production. Shifting these allocations among product lines is not possible once they have been fixed, as the underlying wire rod production is required to maintain our commitments to customers in both bar and wire.

Of bar production, virtually all of Ugitech's production in France and Italy is consumed in the European Union where we have a strong presence in the market and increasing demand. The small remaining amount is spread throughout the world, with only a very small percentage of total bar production coming to the United States. Clearly, the focus of Ugitech's European production is on the European market first. This helps explain why we made a direct investment in our own U.S. facility. I suspect the story is similar with Valbruna and Outokumpo's investments in U.S. mills.

Our business model will not change if these orders are revoked:

I would like to emphasize that our decisions about bar have not in any way been motivated by the orders. We sell our products to make a profit. The basic economics of the bar market for French and Italian imports is driven by the emergence of NAS and our own investment in the United States. Revoking the order on bar will not change these basic facts of the market. Ugitech has and will continue to have only an extremely limited presence in the U.S. market dedicated to supplying a small long-standing customer base of end-users who require specialty grades not readily available from U.S. or other foreign producers.

Before closing, I would like to address a few of the US industry's concerns as reflected in their brief:

First, the perceived threat from other producers. While I cannot speak for the other producers in terms of exact capacity and production figures, I can tell you based on my experience how they operate in the U.S. market. As you know from the staff report, Ugitech is considered to be the largest stainless long producer in the world. We are already excluded from the order in France. The remaining producers in France, Ascometal, Aubert & Duval and Acieries Bonpertuis do not have a significant presence in the U.S. market. Ascometal is an alloyed carbon steel producer with very limited stainless capabilities. It makes just a couple grades in a limited diameter range for which, when combined, there is very little demand in the U.S. market. Next, Aubert & Duval produces high temperature alloys. While it could convert this capacity to stainless, it would not make much sense. The main product they produce – nickel alloy bar – is not covered by these or any other orders and sells for around $30,000 dollars per ton in all markets. With an average price of $7000 per ton for stainless steel bar, why would Aubert & Duval make this decision? Finally, Acieries Bonpertuis focuses on light shape material that is also out of the scope of this order.

With respect to Italy, it is a similar story. By far the largest producers – Valbruna, Foroni and Rodacciai – are already excluded. The remaining producers are not players in the U.S.

market. None of them has distribution in the United States, and none of them have ever been a significant presence in the market, even before the antidumping and countervailing duty orders.

The next issue I would like to address is product mix. All the French and Italian producers petitioners raise are not potential new threats because they focus on niche products – grades with limited demand, as well as specialty and highly technical grades for specialized applications. While the domestic producers certainly have the equipment to produce some of this material, I have yet to see it. That's why our imports are present in the market. That's also why Ugitech invested in a U.S. production facility and transferred the technology for these products.

Finally, with respect to excess capacity, I have to agree with Dr. Crandall – nobody has any. In a market like this, if you could produce, you would. There is just too much money in it. Any perceived excess capacity is likely a reflection of constraints in the production process, like insufficient melt or finishing capacity.

In conclusion:

I could not leave here without noting the irony of appearing before this body in light of the decisions of the Commerce Department earlier this year in the Section 129 proceedings. Ugitech is no longer subject to the antidumping order on stainless steel bar from France. In fact, the Commerce Department ruled that, except for the use of the discredited practice of zeroing, Ugitech never should have been found to be dumping in the first place. This squares with the Commerce Department's original ruling in the Italian bar case that Bedini, our Italian finishing operation, was not dumping. And for that matter, the only reason our French mill is still subject to the Italian antidumping order is because the Commerce Department wouldn't calculate a dumping rate for the toll-processed material Ugitech was shipping from Italy. This material was manufactured under the same economics as the non-toll-processed material and also reflected a de minimis dumping margin.

So in many ways, this entire exercise has been a fiction from the beginning. It strains credulity that the U.S. industry would ask you to continue this fiction for another five years. In my view, these orders have already been in place for five years too many.

Thank you.