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Before the International Trade Commission

Stainless Steel Bar from France, Germany, Italy, Korea, and the United Kingdom

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[1] Criterion Economics and the Brookings Institution. The views expressed herein are not the views of the Brookings Institution, its Trustees, or its other staff members.

I have been asked by respondents, including Ugitech SA, to provide an analysis of the likely effects of removing antidumping duties on subject imports of stainless steel bar (SSB) on the U.S. industry and whether removing these antidumping duties would threaten the industry with future injury.

My testimony may be summarized as follows:

- The share of SSB imports from subject countries has remained below its 2001 share of U.S. consumption despite the fact that some producers in these countries have been able to ship SSB to the United States without the imposition of duties. If the antidumping duties on subject imports are lifted, imports of SSB from these countries will not pose a threat to the U.S. industry because of the weakness in the U.S. dollar and the strength of the stainless steel market in the subject producers' traditional markets.

- The U.S. stainless steel bar industry is very different from the one that existed during the original investigation. Many of the producers who were operating in 2000-02 have either exited the industry or been acquired by stronger companies. One major new producer, North American Stainless (NAS), is growing rapidly and has invested substantially in U.S. stainless steel capacity. The domestic industry is reporting very healthy financial returns, with income averaging more than13 percent of sales. Net income has increased dramatically since 2003, and has doubled between the first half of 2006 and the first half of this year.

- The stainless steel bar market is enjoying robust growth, fed by the strong world economy and extremely high rates of economic growth in Asia. This growth is expected to continue as the world economy continues to grow at nearly 5 percent per year.

- U.S. total consumption of SSB has been increasingly briskly since 2003. Moreover, U.S. exports have grown substantially. As a result, the domestic producers have increased their shipments of this product by 24 percent in the last three and one-half years.

A. Introduction

This sunset review involves antidumping duties imposed on stainless steel bar (SSB) imported from France, Germany, Italy, Korea, and the United Kingdom. Stainless steel bar is a product that is produced jointly with other stainless steel products, utilizing the same melting, rolling, and finishing facilities as other stainless steel products. As a result, SSB is not an "industry" in the strict economic sense, and it is often difficult to obtain precise estimates of the economics of producing this product from public data or even from confidential data submitted in this proceeding. In my testimony today, I am forced to rely on public data, but I will refer the Commission to analyses based on confidential data that I prepared for submission with Ugitech's pre-hearing brief in this proceeding.

B. Total Imports of SSB Have Declined Since 2000 As U.S. Consumption Has Risen

Imports of stainless steel bar fell substantially after 2000 and have recently recovered in response to the surge in U.S. consumption of SSB. [Exhibits 1 and 2] Imports fell by nearly 50 percent from 2000 to 2003, declining from 126,235 tons in 2000 to just 67,993 tons in 2003. Thereafter, imports rose to 120,491 tons in 2006 as U.S. consumption increased sharply. Despite this increase, imports accounted for a smaller share of U.S. consumption in 2006 than in 2000.

Part of the reason for the decline in the import share of SSB is the declining value of the U.S. dollar since 2001. Note that U.S. exports have been rising steadily since 2000 [Exhibit 3], partly as a result of the declining value of the dollar. [Exhibit 4]

C. The U.S. Industry Has Changed Dramatically

Antidumping and countervailing duties were imposed on SSB imported from France, Germany, Italy, Korea, and the United Kingdom in 2002. Since that time, however, the world steel industry in general and the stainless steel bar industry in particular have undergone sweeping changes. Once stagnant or even declining industries, plagued by excess capacity and outdated facilities, these industries have experienced a dramatic revival. This revival has been particularly evident in U.S. stainless steel bar manufacturing. Today, the U.S. industry is radically different from the industry that existed in 2000 when the Commission's initial investigation was launched and from the industry that existed in 2002 when the duties were imposed.

1. Prices Have Been Rising Steadily

There are no official price series for stainless steel wire bar. The Bureau of Labor Statistics no longer maintains a Producer Price Index for this product. The best public data for U.S. prices are those published monthly by *Purchasing Magazine*. These data reproduced in Exhibit 5, show that SSB prices fell between 2000 and 2002, but they have rebounded sharply since then due to the strong world demand for the product. Since 2002, U.S. prices of SSB have risen by more than 200 percent. The data on U.S. producers' unit values of shipments in the Pre-Hearing Staff report exhibit a similar trend. [Exhibit 6] The Commission should note that prices have continued to rise since the end of the period of review in its last stainless steel bar investigation, the Second Review of Stainless Steel Bar from India, Japan, and Spain.

Could the sharp increases in prices since 2003 be due simply to rising raw materials costs? The answer is that –over time –prices must reflect the costs of production, but the causation runs from surges in demand for steel in general and stainless steel in particular to higher raw materials prices as capacity constraints are encountered in the supply of scrap, molybdenum, chromium, and nickel. Final product prices of steel products often follow with a lag due to contractual provisions with downstream customers of the final product. Eventually, however, steel product prices catch up and may even outstrip the price increases in raw materials. Over the last three years, the prices of SSB have risen more rapidly than raw materials prices, thereby contributing to increased producer profit margins. [Exhibit 6]

2. The Strengthening of U.S. Prices of Stainless Steel Bar Reflects Strong Growth in U.S. and World Demand

Increases in U.S. prices of stainless steel bar have occurred in an environment of rising U.S. and world consumption of SSB. As I show below, much of this growth has come from Asia, particularly China, but demand has increased in all major consuming regions. In particular, U.S. consumption has grown by almost 12 percent per year since 2003. [Exhibit 1] In its December 2006 report on SSB from Brazil, India, Japan and Spain, the Commission stated that "… the strong growth in demand of the past few years is unlikely to continue."[2] Clearly, the Commission's concerns have not been vindicated by the marketplace.

3. The U.S. Industry Is Very Healthy

The U.S. stainless steel bar industry has changed dramatically since the Commission began its initial investigation in 1993. At that time, the Staff Report listed thirteen producers of stainless steel bar: Alvec, Avesta, Carpenter, Crucible, Electralloy, Empire/AL Tech, Hi Specialty, Industrial Alloys, Handy & Harman, Republic, Slater, Talley, and Universal. Many of these producers have since exited the industry or have been acquired by other industry participants, and one major new, efficient producer – North American Stainless –has entered with modern facilities in Ghent, KY. In addition, Ugitech USA has recently begun producing stainless steel bar in Batavia, IL.

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[2] Stainless Steel Bar from Brazil, India, Japan, and Spain, December 2006, p. 13.

Today, there are ten producers of stainless steel bar: ATI Allvac, Carpenter, Universal Stainless (Dunkirk division), North American Stainless, Crucible Specialty Metals, Electralloy, Latrobe Specialty Steels, Outokumpu, Ugitech USA, and Valbruna- Slater. The largest of these are Carpenter and North American Stainless (NAS). The latter is owned by Acerinox, a Spanish company. NAS has been aggressively expanding its stainless operations in Kentucky over the last five years and has made major investments in facilities to produce stainless steel bar.

a. Stock Market Performance

Only two of the U.S. producers, Carpenter and Universal Stainless, have publicly traded equities.[3] The common stocks of both of these companies have surged dramatically since early 2003, a reflection of the strong growth in world demand for stainless steel and in the prices of stainless steel products. As Exhibit 7 demonstrates, between the first quarter of 2003 and July 2007, the price of Carpenter's common stock increased ten-fold and the price of Universal Stainless' equity increased approximately seven-fold. Over this same period, the overall stock market (as measured by the S&P 500 Index) increased by about 70 percent. Thus, the two U.S. publicly-traded producers have outperformed the overall stock market by a factor of 10 to 14.

b. The Expansion of North American Stainless

Particularly noteworthy has been the entry and continual expansion of North American Stainless. North American Stainless is wholly owned by Acerinox, a leading Spanish stainless steel producer. It was founded in 1990 and began U.S. cold-rolling operations by installing a Sendzimir mill in its Kentucky plant in 1993. In 1995 it added a second Sendzimir cold-rolling mill to this plant.[4]

In 1996, NAS launched a new expansion program for its Kentucky plant, announcing that it would invest $264 million in a hot-rolling mill at this plant. Subsequently, in 2001, it added a plate mill to the plant. In 2002 it invested in a melt shop with a rated capacity of 800,000 metric tonnes per year, allowing it to melt its own steel in the United States.[5] NAS opened a new billet-casting facility in its Kentucky plant in March 2005, allowing it to operate a fully-integrated stainless long products facility, producing stainless bars and wire rod.[6] In 2006, it opened a second electric arc furnace, increasing its melting capacity to 1.1 million metric tonnes per year, and late last year it announced that it would add an AOD converter and ladle metallurgy facility that would expand its raw-steel output to 1.56 million tons by 2008.[7]

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[3] ATI Allvac is a subsidiary of Allegheny Technologies, a large diversified producer of specialty steel, but only provides tolling services for stainless steel bar for other producers. NAS is owned by Acerinox, a Spanish company.
[4] Information downloaded from its website, www.northamericanstainless.com.
[5] A full description of this major capital expenditure program is available in the *NAS Brochure* at www.northamericanstainless.com.
[6] http://www.northamericanstainless.com/html/nasnews/nasnews.htm
[7] North American Stainless, news releases, September 14, 2006 and December 4, 2006.

NAS's investment program is a reflection of the general attractiveness of the U.S. stainless steel market. NAS had invested $1.24 billion in its U.S. production facilities through 2003, and more than half of these capital expenditures had occurred since 1998.[8] This investment program has been extremely profitable. In 1999, Acerinox reported that NAS had net profits of 50 million Euros,[9] or U.S. $53 million at the average U.S./Euro exchange rate for the year.[10] Acerinox recently reported that NAS realized sales of $2,505 million and that its after-tax U.S. profits had soared to $240 million in 2006. Thus, NAS's after-tax profits rose nearly 400 percent in just seven years.[11]

c. Industry Profitability

The best indication of the change in the industry's health since the period of investigation may be found in the financial data that the domestic producers reported to the Commission in this proceeding. [Exhibit 8] In 2001-02, the producers realized net losses,[12] but as prices rose throughout 2004-06, their profits increased dramatically. Net income rose to nearly $120 million, or more than 12 percent of sales, in 2006 and continued to increase in the first half of this year.

D. World Consumption of SS Bar Has Surged Dramatically

With world economic growth averaging more than 4.5 percent per year since 2001, the demand for stainless bar has been growing at a rate of more than 6 percent per year. In 2001, world demand for SSB was 1.18 million metric tonnes. By 2007, it had increased to 1.7 million tonnes. [See Exhibit 9.] Moreover, SSB demand is expected to continue through 2010.

The growth in demand has come from most consumption centers, but growth has been particularly strong in China. This strong demand, combined with the generally strong demand for stainless steel throughout the world, has placed pressure on world capacity, resulting in the strong upward price pressures shown above. Given that the most recent forecasts predict that world GDP will grow at an annual rate of 5 percent for the next two years, there is little or no prospect of a downturn in the demand for SSB. [Exhibit 10]

Since 2001, China has accounted for more than 60 percent of the growth in SSB, a reflection of its very strong economic growth. China's Gross Domestic Product has grown at a stunning average annual rate of 9.8 percent per year since 2001 [Exhibit 11], and this growth is expected to continue for the foreseeable future. The International

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[8] Acerinox, Annual Reports, 2002 and 2003.
[9] Acerinox, Annual Report, 2000.
[10] Exchange rate data from *Economic Report of the President*, February 2005, Table B-100.
[11] Acerinox, 2006 Annual Report, available at http://www.acerinox.es/acerinox/ingacerinox.nsf/Informacion.html.
[12] I ignore 2003 because one producer reported unusual expenses in that year, thereby adding substantially to the industry's reported losses.

Monetary Fund's 2007 *World Economic Outlook* forecasts that China's economic growth will continue at a 9.5-10 percent annual rate through 2008. Thus, the Commission should not be concerned that there will be a slowing of demand growth in China in the foreseeable future.

E. Subject Imports Are Not a Threat to U.S. Producers

As shown in Exhibits 1 and 2, U.S. imports of SSB have generally moved with U.S. consumption since 2001. Between 2001 and 2003, they declined as U.S. consumption fell, but imports rebounded with the overall U.S. market for SSB. Nevertheless, the import share remains below its 2001 value. Similarly, the subject import share of SSB in U.S. consumption has remained below its 2001 level throughout the period of review. More important, the subject imports from companies still under the orders have declined to *de minimis* levels.

1. Subject Imports from Companies Still Subject to the Orders

As a result of the implementation of the findings of a WTO panel under Section 129 of the Uruguay Round Agreements Act, Ugitech (France), Walzwerke Einsal (Germany), Acciaieria Valbruna (Italy), Foroni (Italy), Rodacciai (Italy), and Corus Engineering (United Kingdom) are now no longer subject to the orders. Therefore, the quantity of subject imports still subject to the orders has declined to less than 5 percent of U.S. consumption. Thus, lifting the orders could not possibly have deleterious effects upon the domestic industry. Imports from several producers in France, Germany, Italy, and the United Kingdom may now enter the U.S. without the imposition of duties if these producers choose to increase their exports to the United States.

Given the strength of the European market and the weakness of the dollar, imports from the producers still subject to the orders are not likely to increase materially. But there is surely little cause for maintaining the orders on producers who account for such a small share of U.S. imports.

2. French and Italian Imports

Imports from France in particular have generally remained below 3 percent of U.S. consumption since 2000 because of the strength of its traditional markets in Europe and the decline in the value of the dollar in terms of the Euro. Given the relative stability of the French import share, it would be difficult to conclude that the antidumping and countervailing duties have had any effect on French imports. Nor is there any evidence that French exporters have used their affiliates in Italy that are not subject to the orders to increase their presence in the United States.

The overwhelming share of French production has been consumed in Europe in recent years. Ugitech, the largest producer in the world, is now excluded from the order. The French producers who remain in the order either have no history of shipping to the United States or have such a limited product range that their collective imports could not have an impact on the U.S. market. Moreover, these import levels are not likely to rise given market conditions and the value of the dollar.

Nor is there any evidence that imports from Italy have had an impact on U.S. producers' shipments. The Commission collected data on U.S. producer shipments and imports from Italy for seven product categories. My analysis of the confidential data on these products submitted by U.S. and Italian producers, which may be found on pp.18-20 of my report appended to Ugitech's pre-hearing brief, that the Italian producers have not been the price leaders in the U.S. market.

Throughout the period of investigation, one major producer of stainless steel bar in Italy – Bedini – has not been subject to the orders. Despite this fact, non-subject imports from Italy have not surged. Given that Bedini is owned by Ugitech, the latter firm could have increased its exports to the United States through Bedini and reduced its subject imports from France and Italy. It did not do so. Now, Valbruna, the largest Italian producer, as well as Foroni and Rodacciai, are also excluded from the orders. My understanding is that none of the remaining Italian companies has distribution in the United States. As a result, they have not had a significant impact on the market, and will not in the foreseeable future.

F. Conclusions

Since 2000, the U.S. and world stainless steel bar industries have changed dramatically. The most important of these changes may be summarized briefly:

- The U.S. industry is completely different from the industry that existed in 2000 and 2002. New firms have entered that are making substantial capital investments to expand their operations. The industry has been very profitable since 2003, and its net income has risen in every year since 2003.

- The subject import share has varied with the strength of the U.S. market for SSB, but it has not returned to its 2000-01 level. Similarly, subject import shares from France and Italy have varied with the strength of the U.S. market, but they have not risen appreciably above their 2000-01 shares. Given the strength of their European markets, the weakness of the dollar, and the relatively small amount of imports still subject to the orders, removing the orders on imports from these countries would not pose a threat to the U.S. industry.

- Given that a number of producers from subject countries are now exempt from the orders as the result of a WTO finding under Section 129 of the Uruguay Round Agreements Act, the remaining subject imports are *de minimis*. Therefore, there is no reason to keep the orders in place.

- World demand for stainless steel is growing rapidly and is forecast to continue to grow for the foreseeable future. Therefore, imports are not likely to be diverted to U.S. if the orders are lifted, particularly at current currency values.

- U.S. prices of stainless steel bar have risen sharply in the last two years driven by strong world demand. This rise in prices is not the result of the orders; as a result, removing the orders will have no effect on U.S. prices.

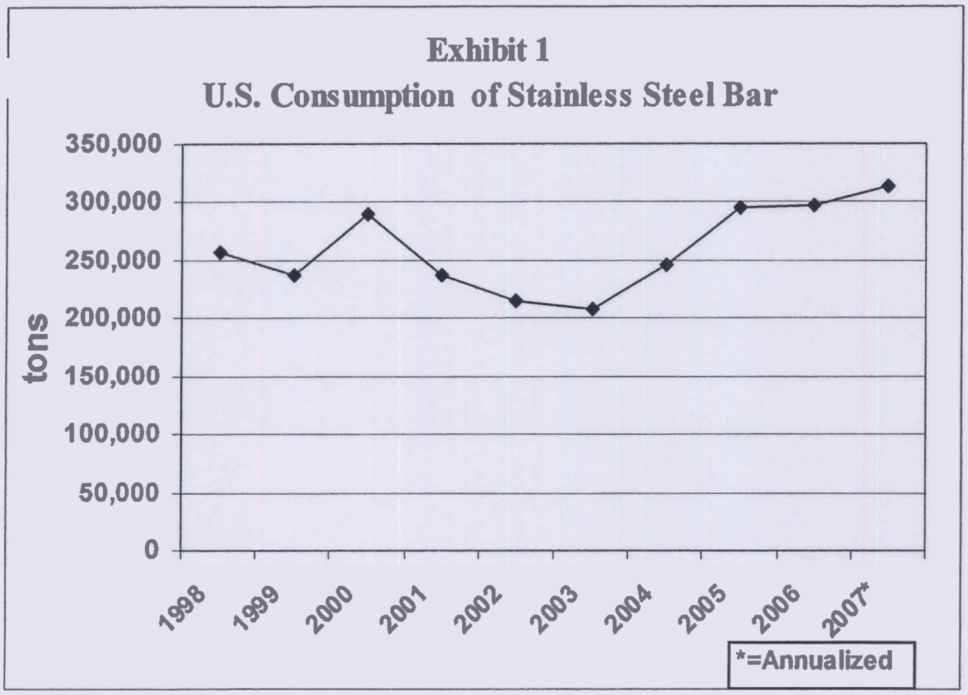


Exhibit 1
U.S. Consumption of Stainless Steel Bar
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
tons
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007*
*=Annualized

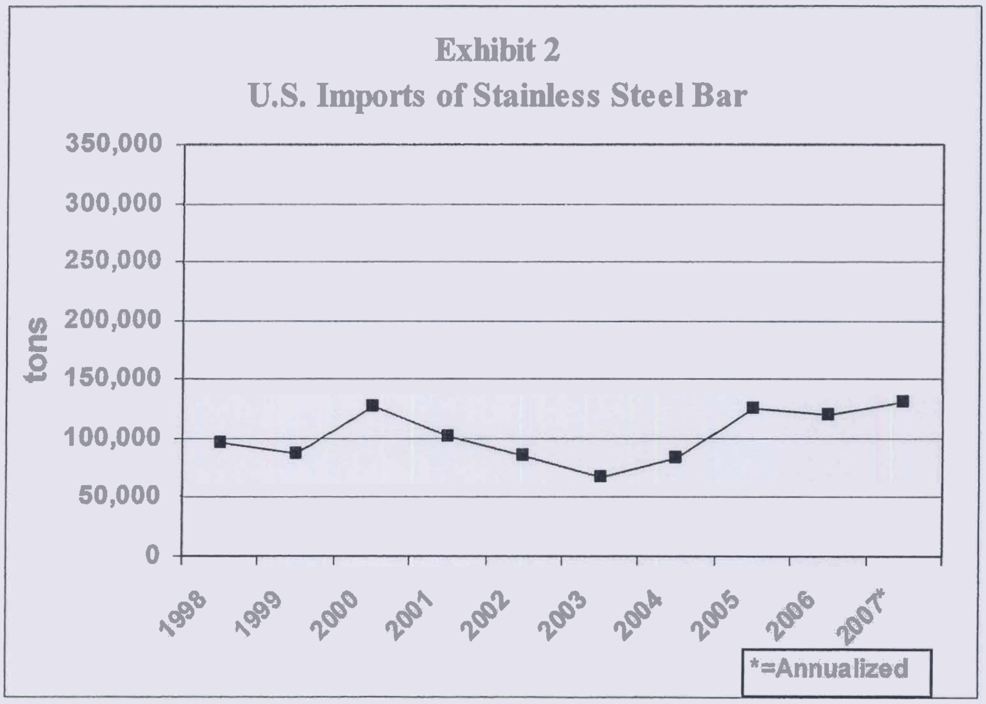


Exhibit 2
U.S. Imports of Stainless Steel Bar
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
tons
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007*
*=Annualized

Exhibit 3
U.S. Producers' Exports of Stainless Steel Bar

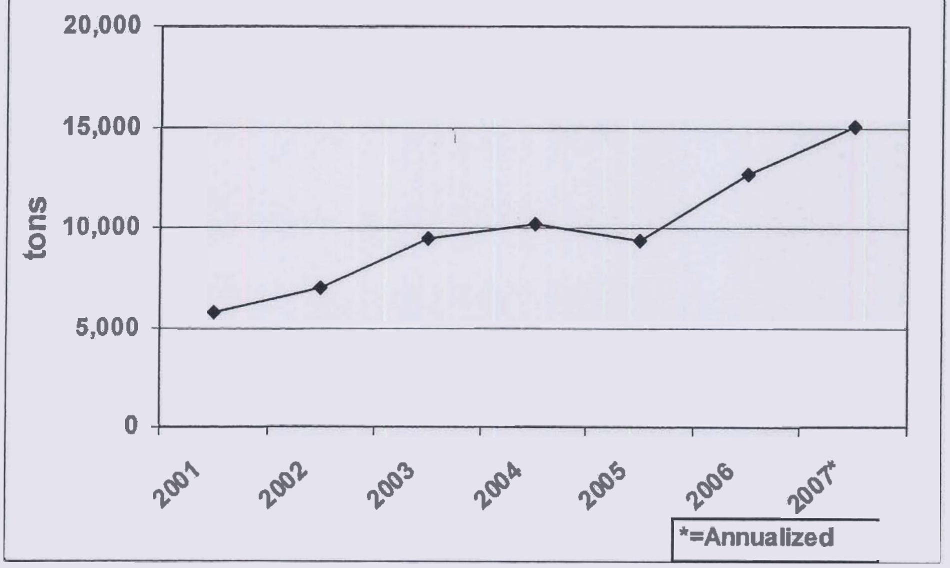


Exhibit 4
Value of the U.S. Dollar
(Euros/ $)

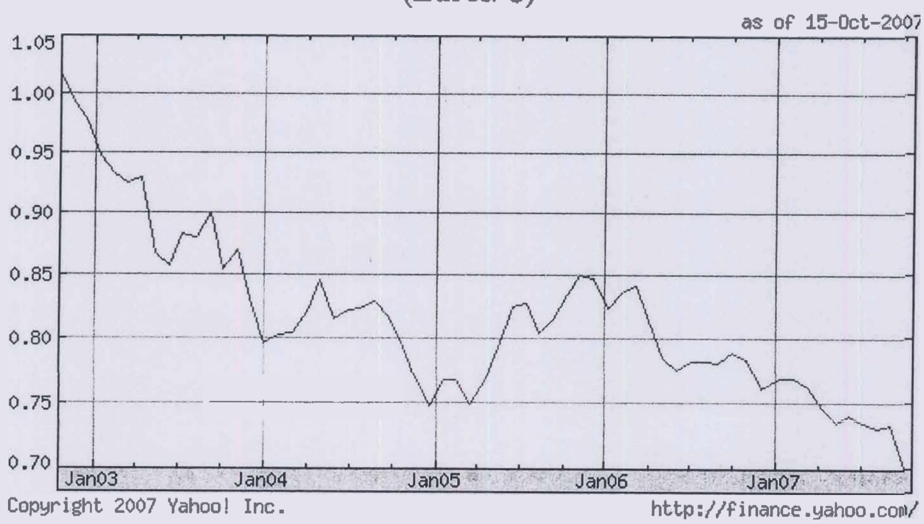


Exhibit 5

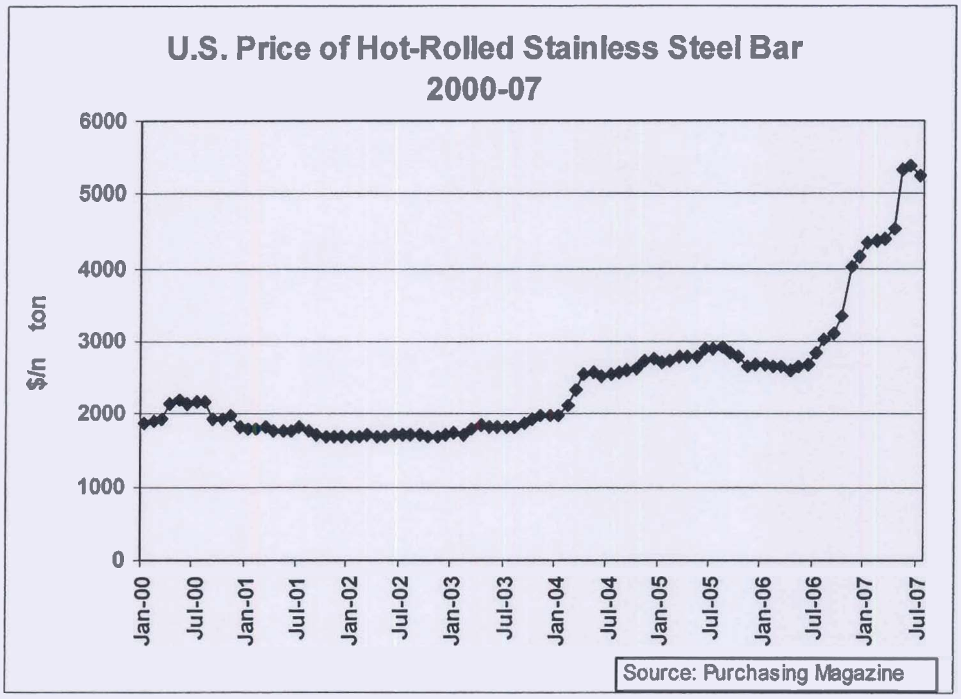


Exhibit 6
Increase in Unit Value and Unit Material Cost of U.S. Producer Shipments Of Stainless Steel Bar

	2001	2002	2003	2004	2005	2006	2007-H
Unit Value	2,907	2,797	2,867	3,567	4,323	5,152	6,484
Unit Raw Material Costs	1,038	1,101	1,322	1,878	2,295	2,824	3,750
Unit Value Less Unit Material Costs	1,869	1,696	1,545	1,689	2,028	2,328	2,734

Source: Staff Report, Table III-9

Exhibit 7

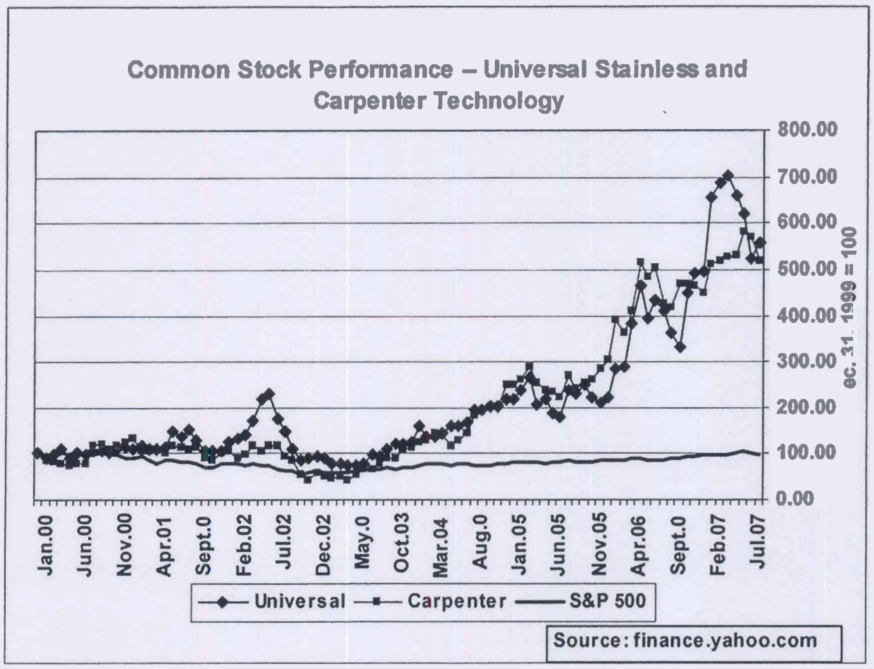


Exhibit 8
U.S. Producers' Reported Financial Results for Stainless Steel Bar

Sales:	2001	2002	2003	2004	2005	2006	2006-H	2007-H
Quantities	137,456	134,824	159,825	167,230	178,404	188,636	94,235	98,852
Value ($000)	399,569	377,134	458,214	596,495	771,243	971,841	401,614	640,937
Cost of Goods Sold	385,607	362,905	482,859	507,798	662,928	810,944	338,328	529,454
Gross Profit ($000)	13,962	14,229	-24,645	88,697	108,315	160,897	63,286	111,483
Total SG&A ($000)	39,083	33,549	34,429	30,695	33,685	39,370	17,710	20,910
Operating Income ($000)	-25,121	-19,320	-59,074	58,002	74,630	121,527	45,576	90,573
Other Income/Expenses ($000)	-11,884	-10,215	-7,026	-3,252	-4,274	-1,698	-5,568	-4,512
Net Income ($000)	-37,005	-29,535	-66,100	54,750	70,356	119,829	40,008	86,061

Source: Staff Report, Table III-9

Exhibit 9
Stainless Steel Bar Demand by Region
(000 metric tonnes)

Region	2001	2002	2003	2004	2005	2006	2007 (e)	2010 (e)	2001-07 Growth (%/yr.)
Americas	260.3	250.5	228.8	269.0	283.0	268.9	271.9	283.1	0.7
Asia ex. China	379.0	360.7	379.4	390.5	399.9	403.5	412.0	438.6	1.4
China	100.2	144.0	188.2	284.6	324.3	405.4	437.8	551.5	24.6
Europe and Africa	441.6	412.3	434.5	464.2	480.3	552.3	560.6	589.1	4.0
World	1183.5	1170.3	1233.5	1410.7	1496.8	1645.1	1699.3	1883.3	6.0

(e) – estimate
Source: ISSF

Exhibit 10

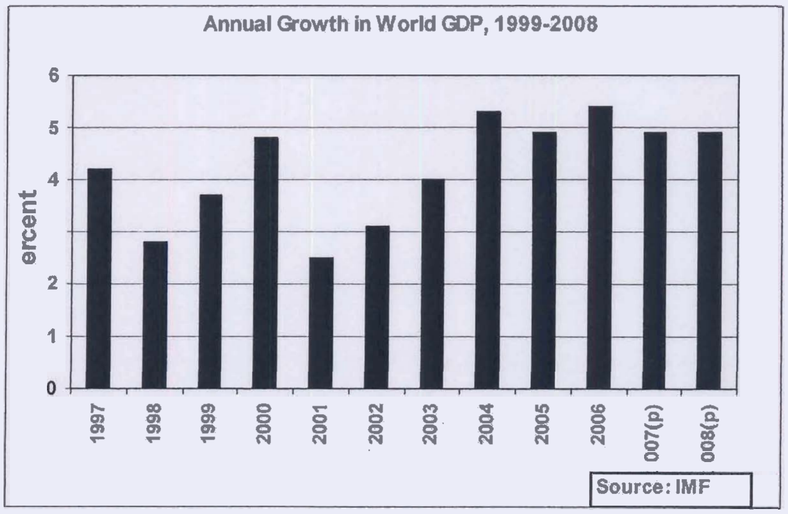
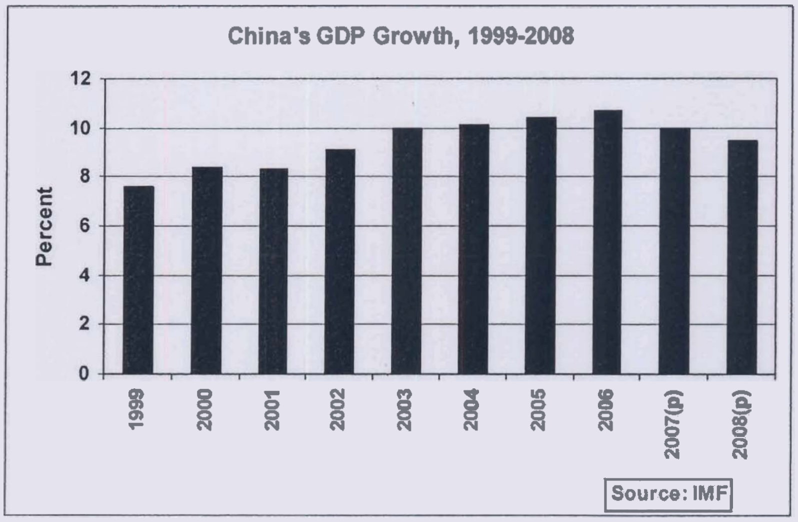


Exhibit 11


China's GDP Growth, 1999-2008
Percent
0
2
4
6
8
10
12
1999
2000
2001
2002
2003
2004
2005
2006
2007(p)
2008(p)
Source: IMF