Steel Concrete Reinforcing Bar from Mexico and the Republic of Turkey

701-TA-502 & 731-TA-1227-1228

September 15, 2014

On Behalf of
the Rebar Trade Action Coalition

CAPITAL ★ TRADE
INCORPORATED

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Summary

- Subject imports are increasing absolutely and as a share of both domestic consumption and production.
- Subject imports undersell domestic rebar and are depressing prices.
- The financial performance of the domestic industry was suppressed in 2012 and eroded further in 2013 and interim 2014 despite the continued recovery from the worst recession in 70 years.
- The decline in the financial performance of the domestic rebar industry occurred as subject imports significantly increased.
- The industry is injured in the context of the business cycle.

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Conditions of Competition

Past Commission Opinions Agree

- Subject and domestic rebar are highly substitutable. (Commission Opinion, July 2013 and December 2008).

- Rebar is purchased on price. (Commission Opinion, July 2013 and December 2008)

  - In response to the Staff's questionnaires, 18 of 26 purchasers listed price as the most important purchasing factor. The next closest factors, quality and availability, were identified by only 2 customers. (RTAC's Pre-Hearing Brief, Sep 2014)

- Demand for rebar is inelastic. (Commission Opinion, July 2013 and December 2008)

Source: *Steel Concrete Reinforcing Bar from Belarus, China, Indonesia, Latvia, Moldova, Poland, and Ukraine.* USITC. Inv. Nos. 731-TA-873-875, 878-880, and 882 (Second Review). Pub. 4409 (July 2013). (Hereafter "Multi-Country Second Review") Commission Opinion at 18, 9, and 21. *Steel Concrete Reinforcing Bar from Turkey*. USITC. Inv. No. 731-TA-745 (Second Review). Pub. 4052 (December 2008). (Hereafter "Turkey Second Review") Commission Opinion at 16 and 18.

Head to Head Competition

- Imported rebar competes head-to-head with similarly sized U.S. product.
- Subject imports compete on a national basis with each other and with domestic production.
- Subject imports compete with each other and with U.S.-produced rebar in all market segments across the value chain.

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Import Volumes

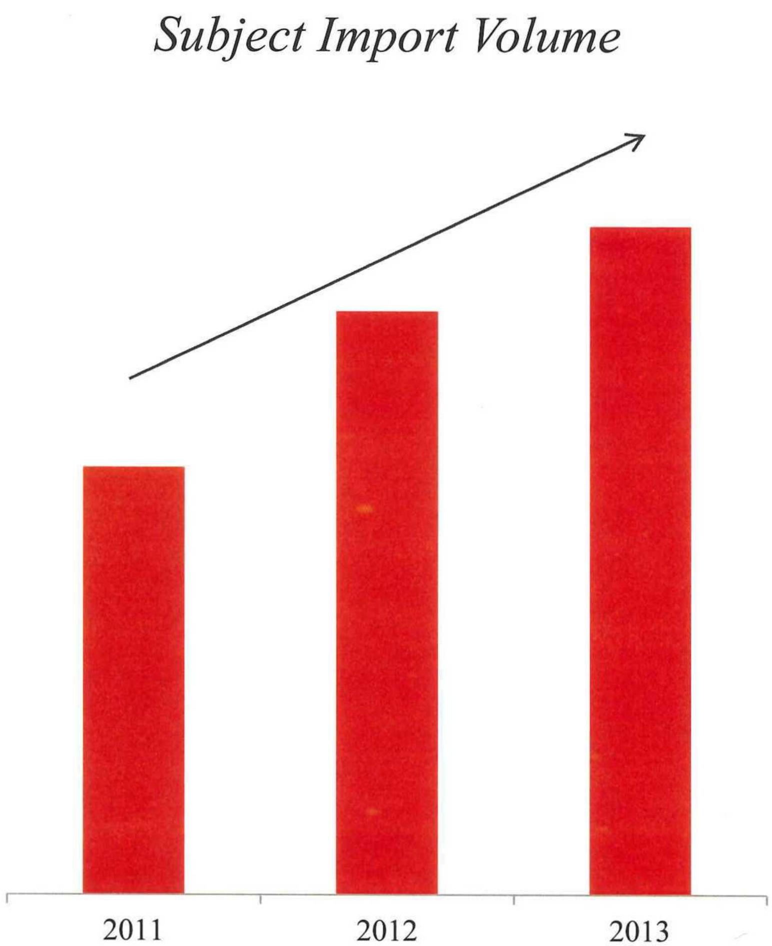
Timing of Subject Imports

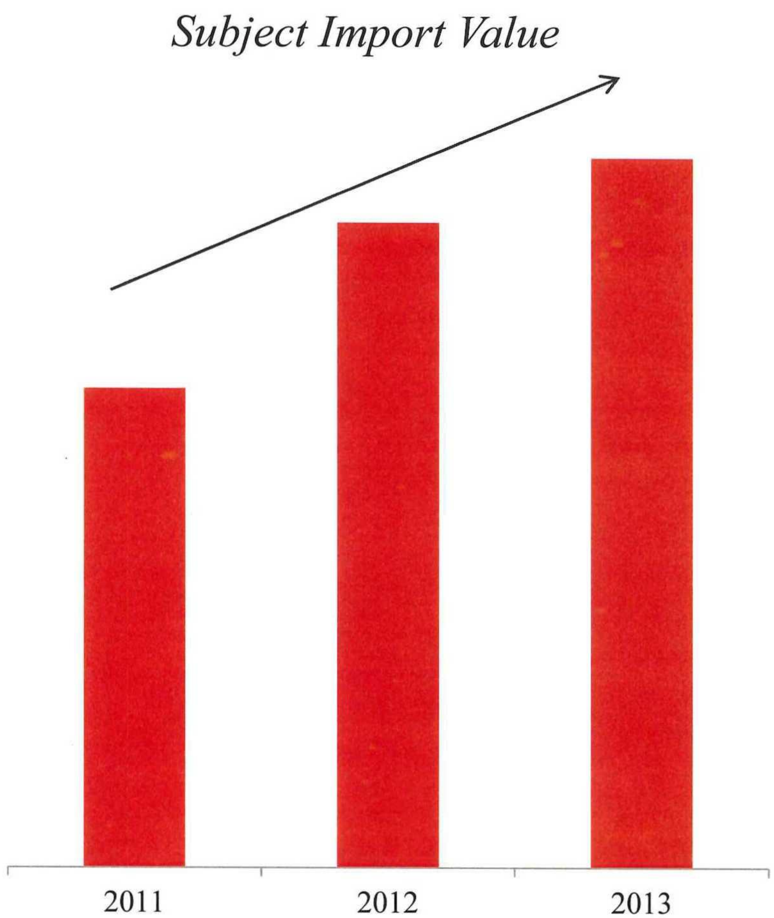
- Subject imports surged into the market in 2011, causing lost domestic volume.
- In 2012 the surge accelerated. Domestic producers dropped prices to meet competition from the subject imports during 2012 and 2013.
- A cost-price squeeze developed in 2013 and continued in 2014:Q1 as prices fell relative to cost.

Trends Analysis

Import Volumes

Subject Import Volume and Value

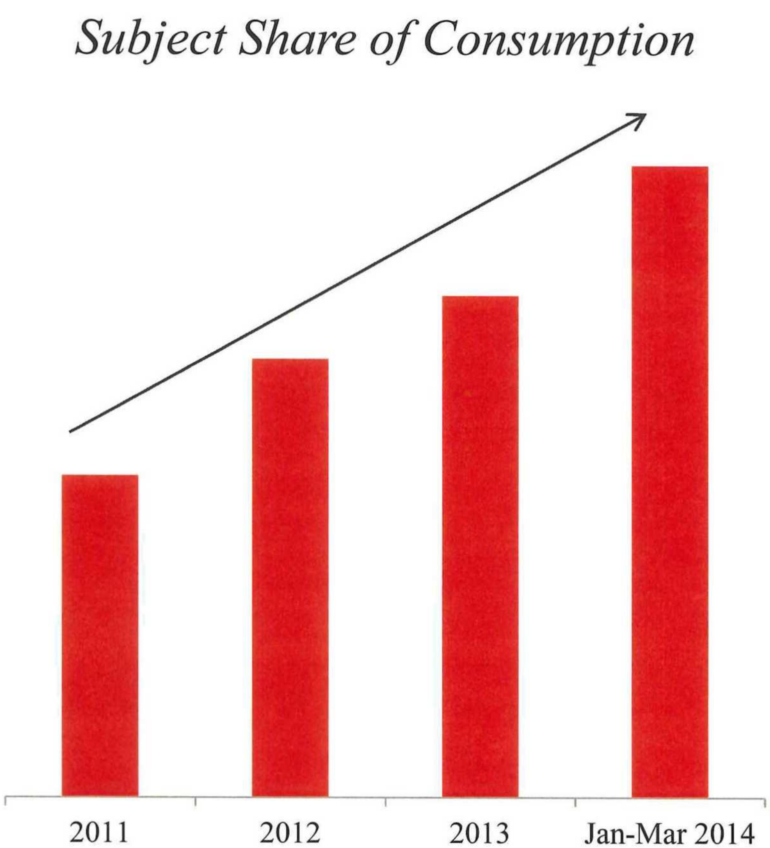


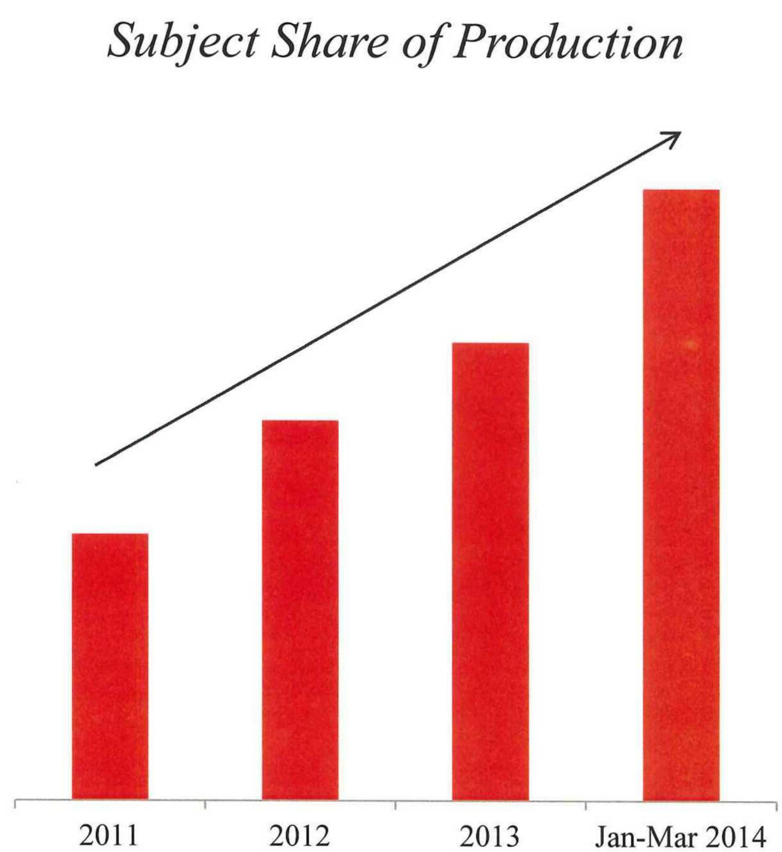


Trends Analysis

Import Volumes

Subject Import Share of Consumption and Production





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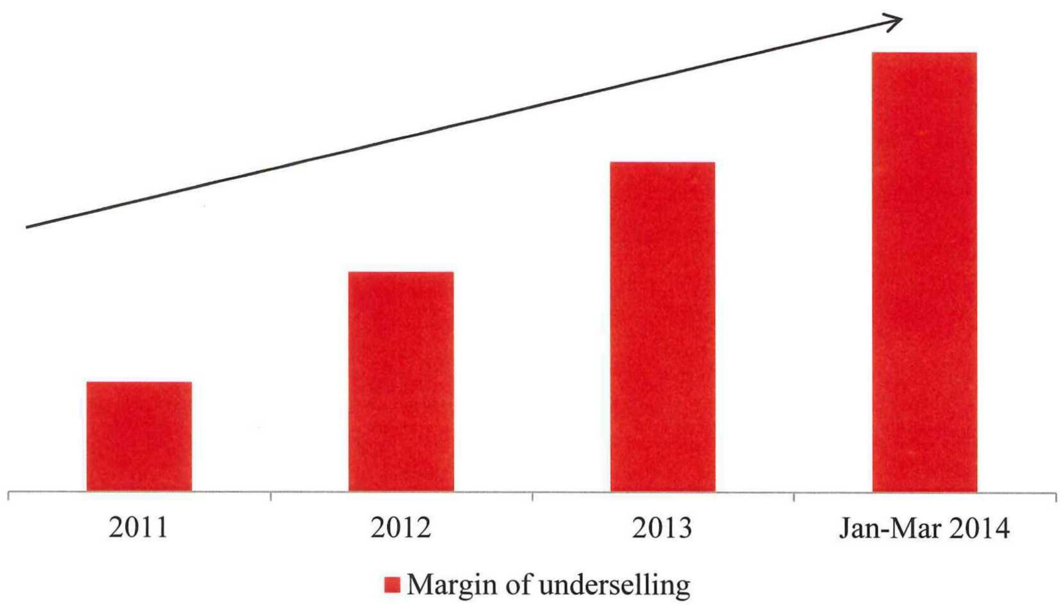
Underselling

Subject Imports Underselling Margin

- Analysis of ITC questionnaires finds underselling in almost 100% of instances during the POI.
- Margin of underselling is increasing throughout the POI.



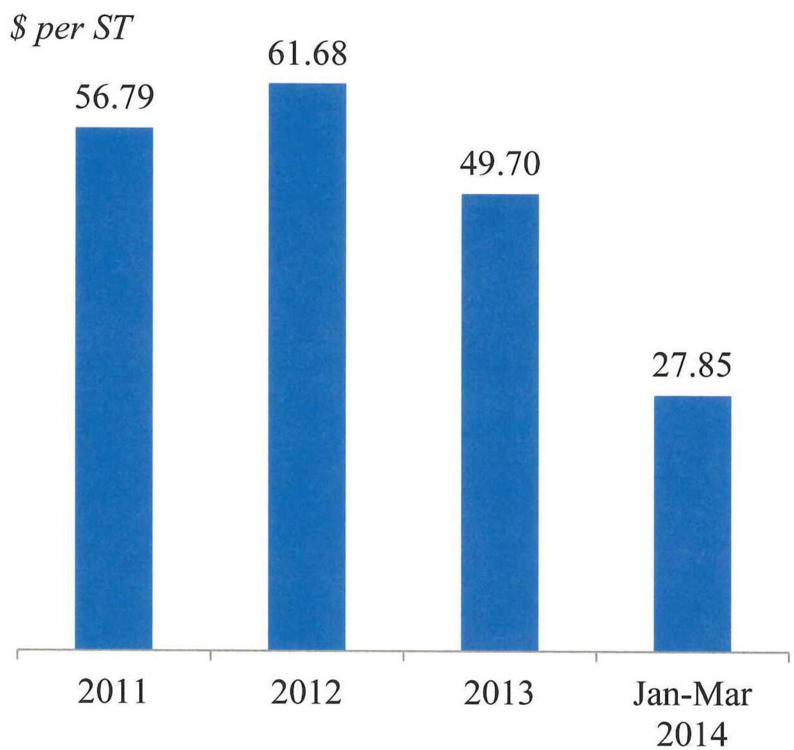
Source: Staff Questionnaire Responses.

Trends Analysis

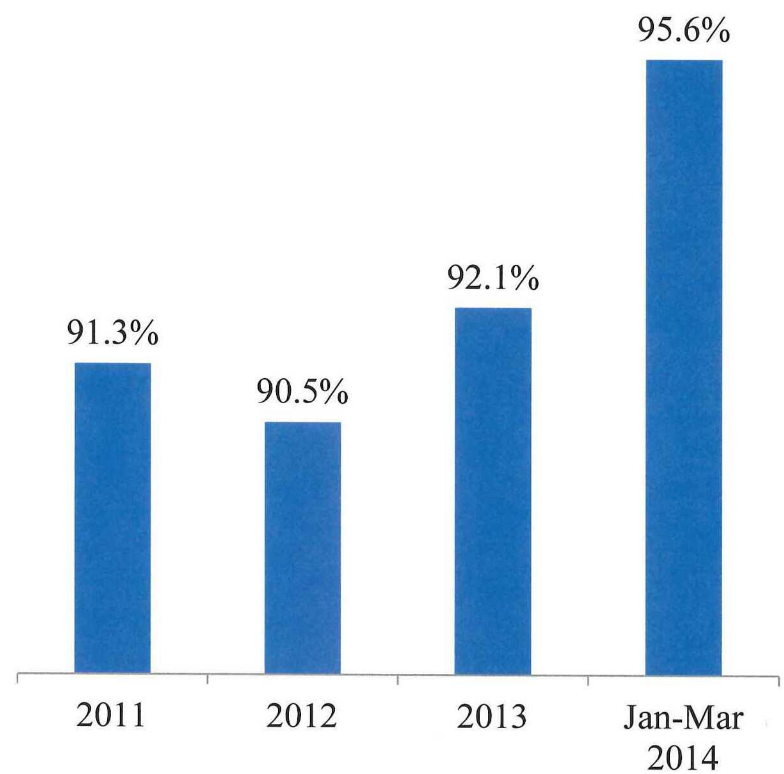
Underselling

The Cost-Price Squeeze

AUV Minus Unit COGS



COGS / Net Sales



Source: Pre-Hearing Staff Report at Table VI-1.

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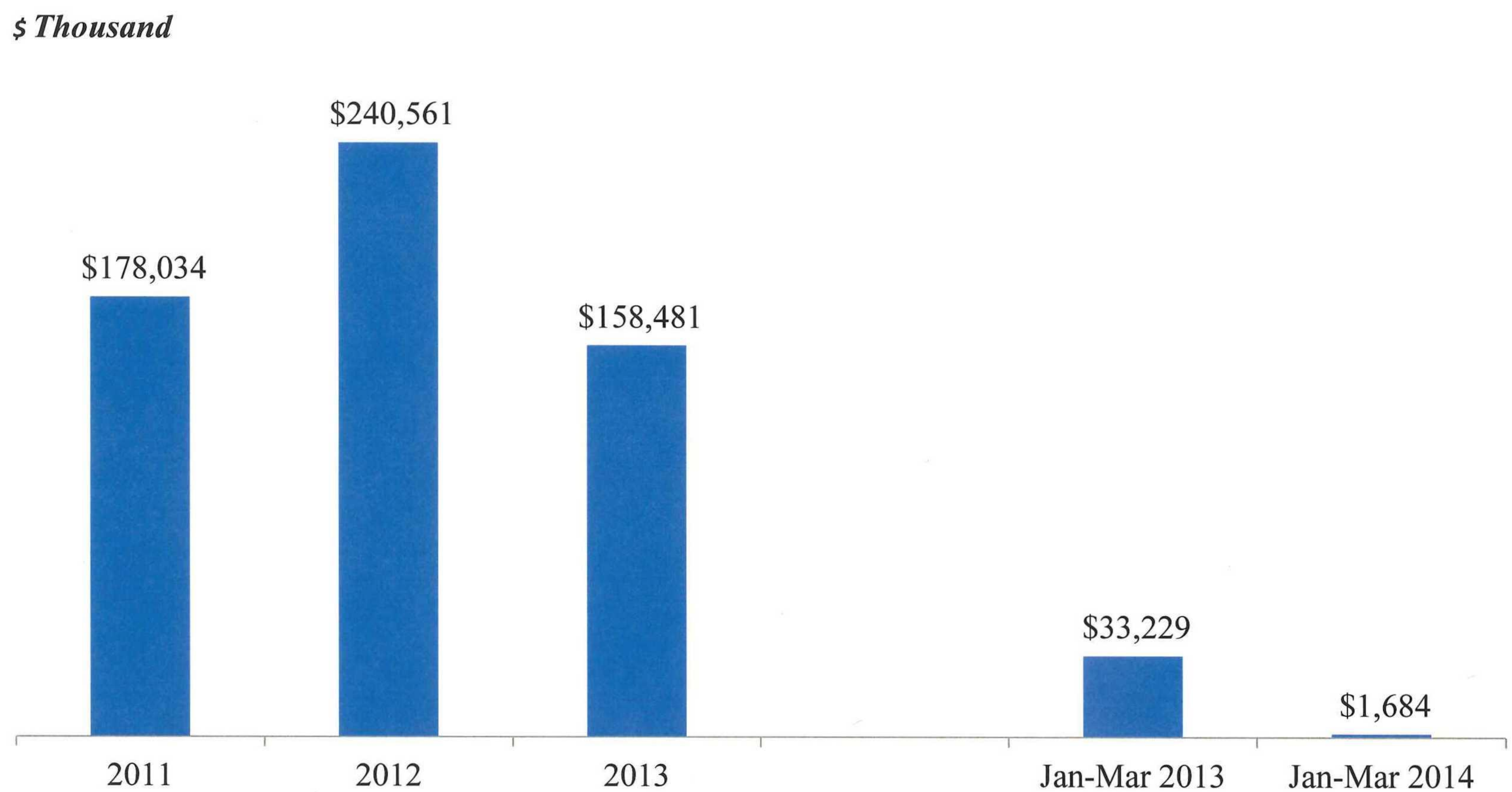
Operating Income



Source: Pre-Hearing Staff Report at Table VI-1.

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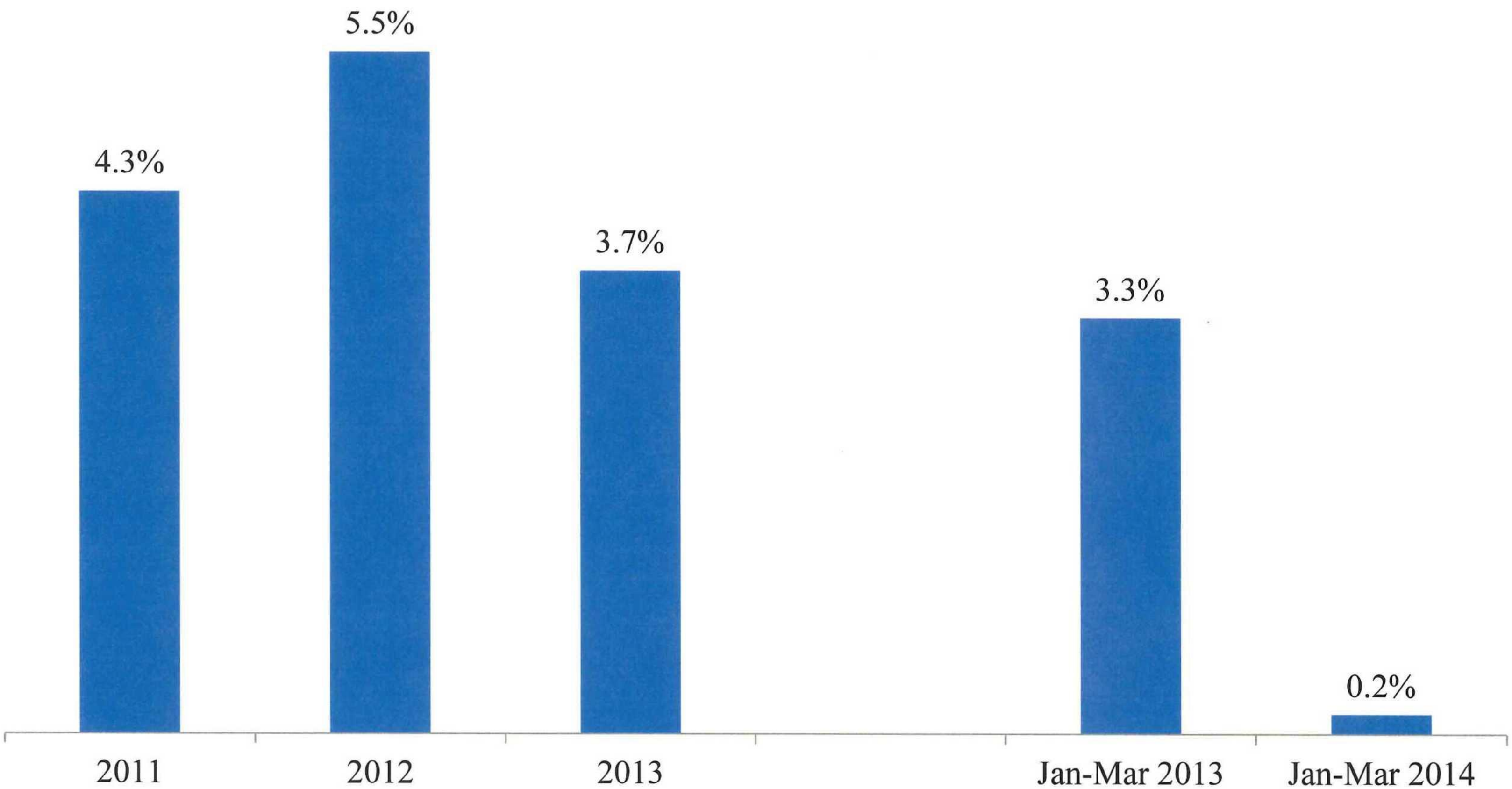
Operating Margin



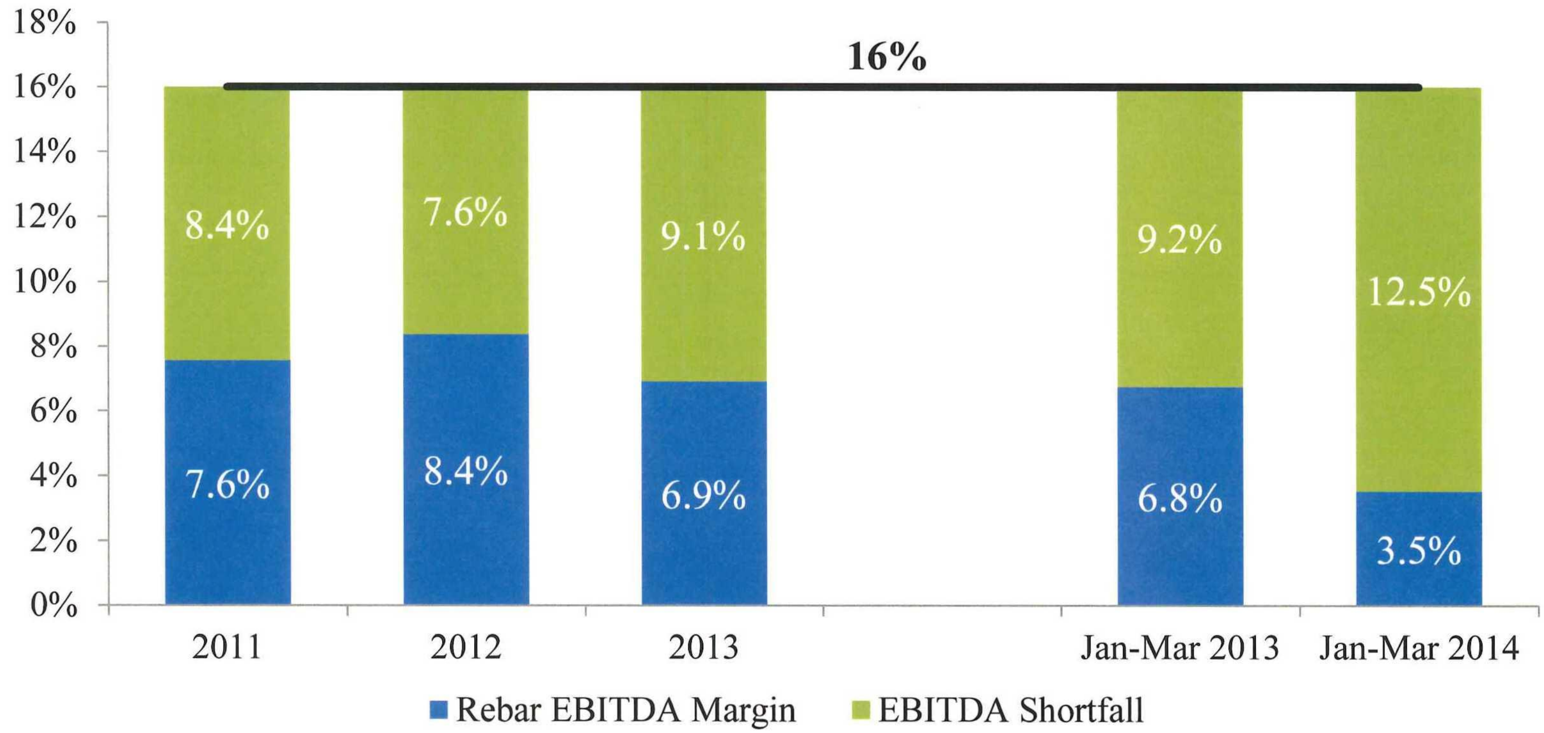
Source: Pre-Hearing Staff Report at Table VI-1.

Trends Analysis

Financial Indicia

Insufficient EBITDA Margin

- "The steel industry would require a 16% average EBITDA margin to be economically sustainable in the long term." *McKinsey*



Source: Pre-Hearing Staff Report at Table VI-1 and "Overcapacities in the Steel Industry." McKinsey & Company. OECD Steel Committee 74th Session. (July 2, 2013).

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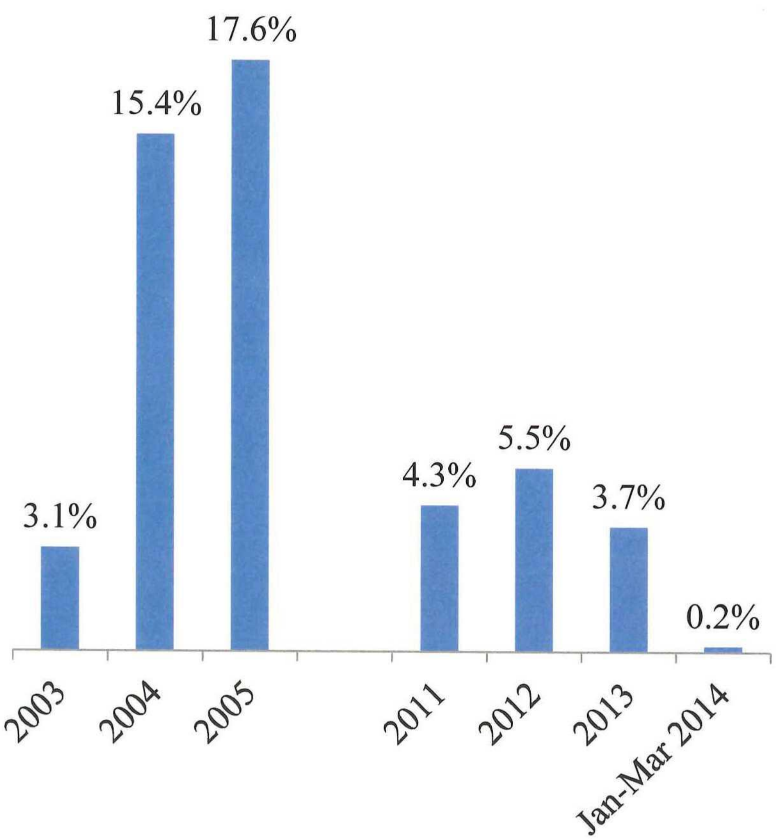
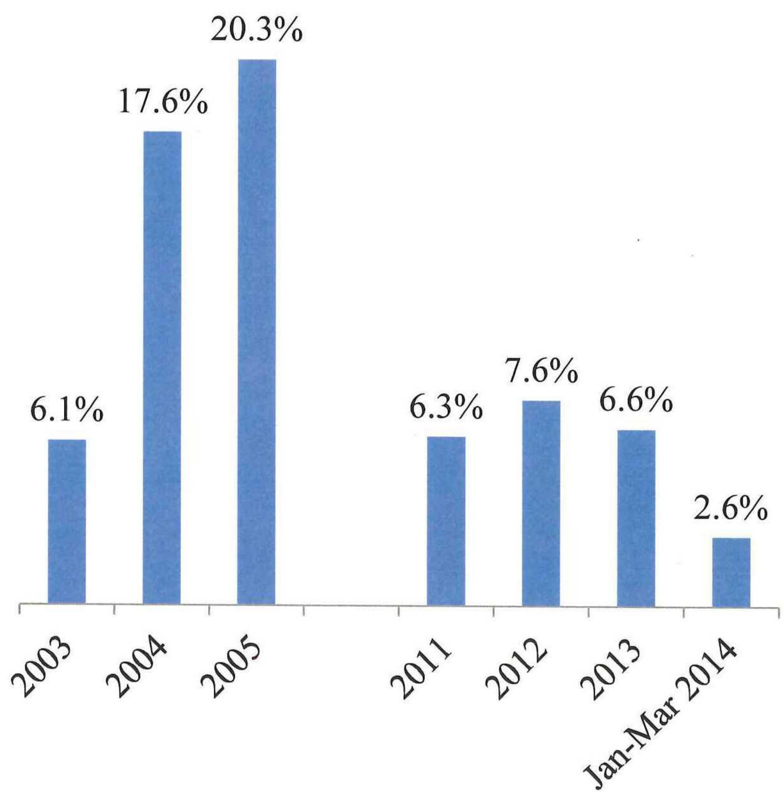
Financials Indicators Remain Weak Despite Growing Consumption

Operating Margin



Cash Flow to Sales

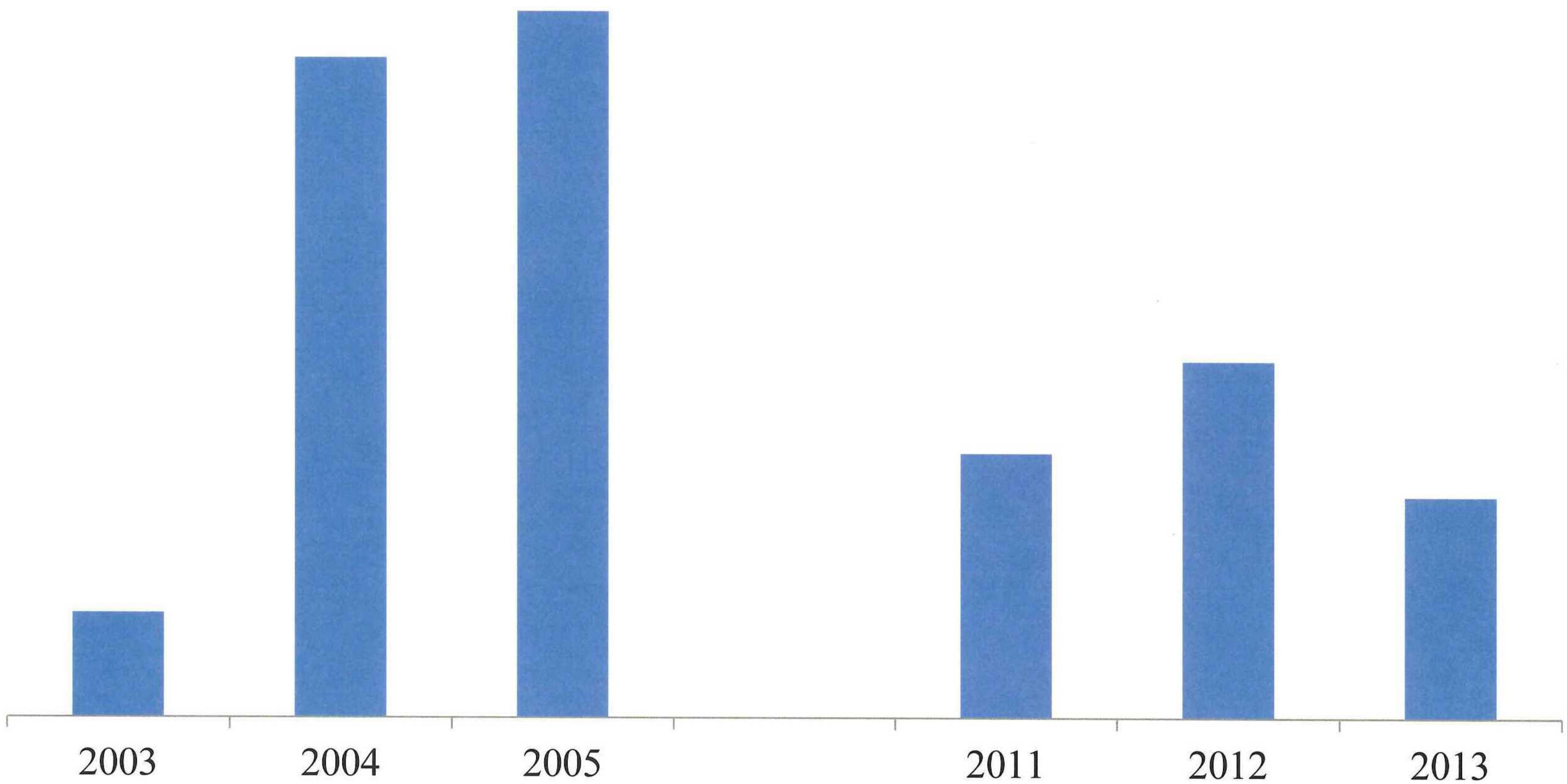


Source: Pre-Hearing Staff Report at Table VI-1 and Multi-Country Second Review Staff Report at Table I-1.

Trends Analysis

Business Cycle

Return on Assets Declined in 2013



Source: Pre-Hearing Report Table C-1 and Responses to the Commission's questionnaires; and First Review Table III-12.

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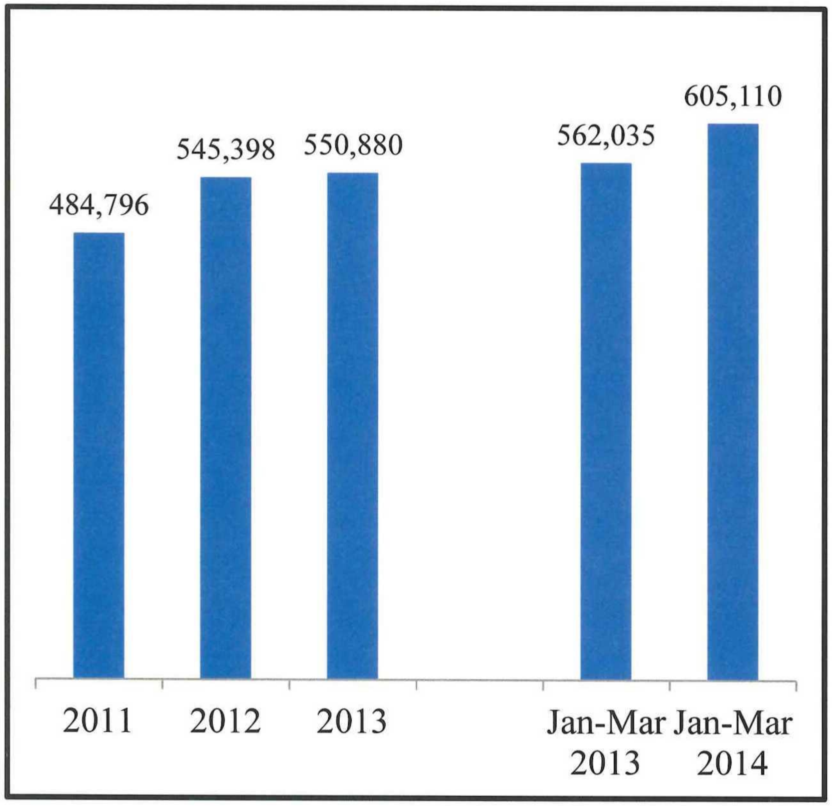
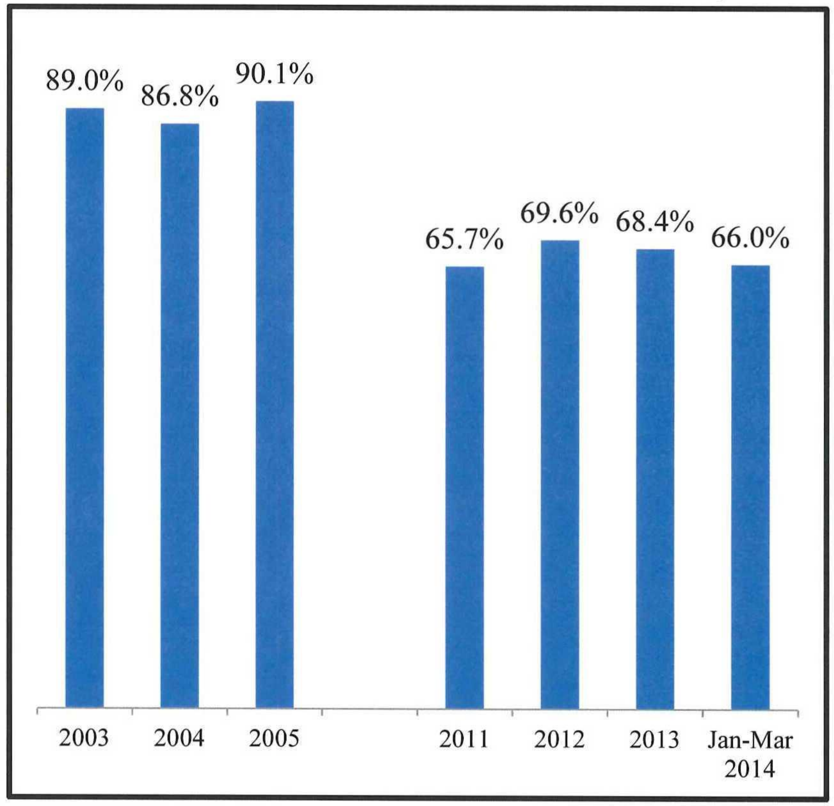
Negative Effects on Other Indicia

Inventories are Increasing Throughout the POI



Capacity Utilization is Lower Compared to Prior Recovery



Source: Petitioners' Questionnaire Responses and Multi-Country Second Review Staff Report at Table I-1.

Trends Analysis

Negative Effects on Statutory Indicia

Trade Indicia	Output	☑
	Sales	☑
	Market Share	☑
	Employment	☑
Financial Indicia	Profits	☑
	Return on Investments	☑
	Cash Flow	☑
	Ability to Raise Capital for Rebar Projects	☑
	Investments	☑
Other Indicia	Capacity Utilization	☑
	Inventories	☑
	Underselling	☑
	Lost Sales / Revenue	☑
	Productivity	☑
	Research and Development	☑
	Growth	☑
	Margin of Dumping	☑
	Export Subsidies	☑
	Factors Affecting Domestic Prices	☑

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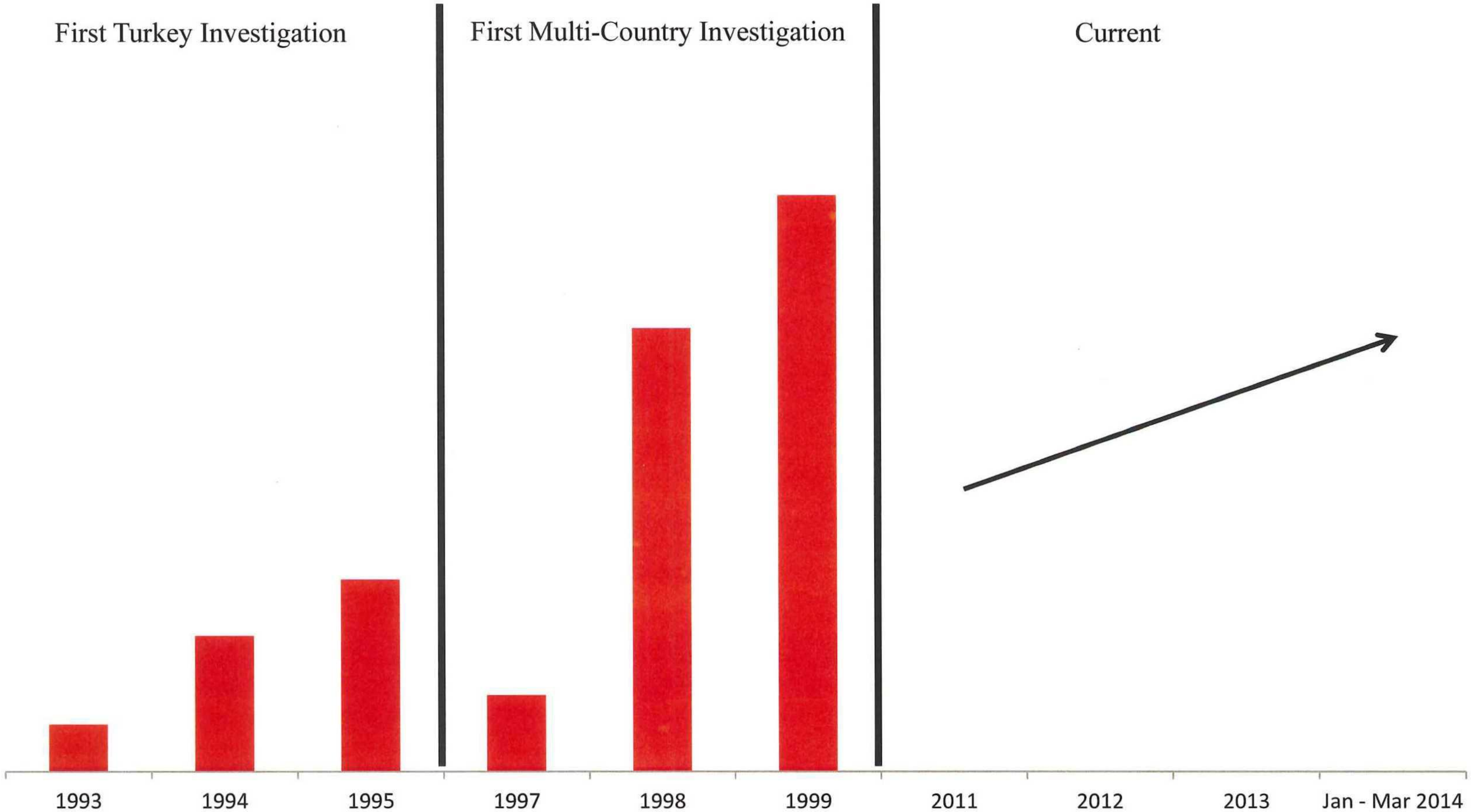
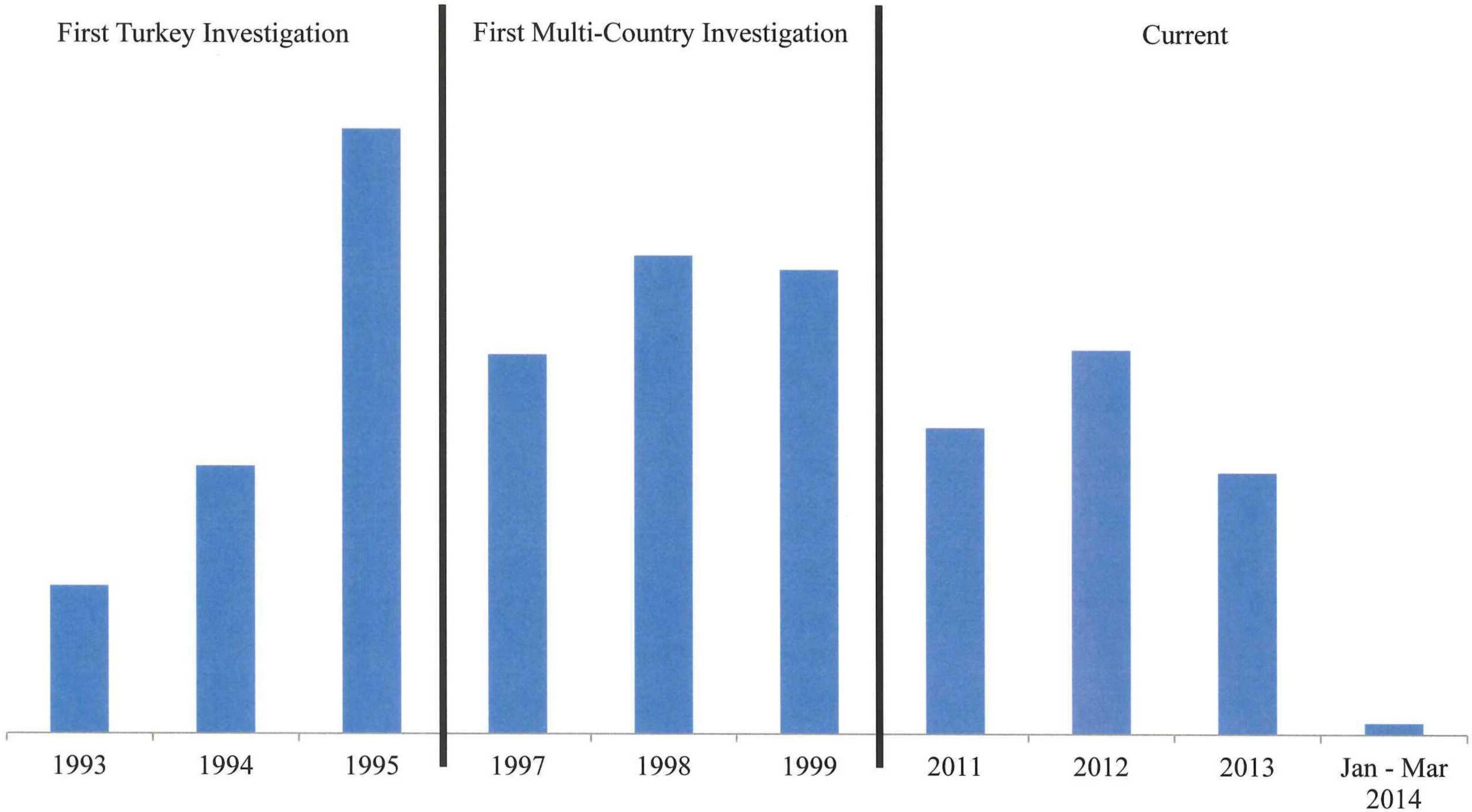
Current Subject Import Market Share Relative to Previous Investigations



Source: Turkey Preliminary Hearing (April 1996) Pub. 2955 at VI-6; and Multi-Country Preliminary Hearing Publication (August 2000) Pub. 3343 at Table C-1.

Prior Cases

Current Industry Operating Margins Are Lower Than in Previous Investigations



Source: Pre-Hearing Staff Report at Table VI-1, Turkey Preliminary Hearing (April 1996) Pub. 2955 at VI-6; and Multi-Country Preliminary Hearing Publication (August 2000) Pub. 3343 at Table C-1.

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Imports from Turkey and Mexico Should Be Cumulated for Purposes of Threat

- The Commission has previously recognized that rebar is a commodity product and has cumulated imports from multiple countries.

☑ Turkey benefits from an export subsidy.

☑ Turkey and Mexico offer a similar range of rebar sizes, lengths and grades as each other and U.S. producers.

☑ Imports from Turkey and Mexico and U.S. producers' U.S. shipments are sold in the same channels of distribution and often to the same customers.

☑ Imports from Turkey and Mexico entered in every month of 2012 to 2013, indicating simultaneous presence in the U.S. market.

☑ Imports from Turkey and Mexico have geographic overlap and compete head-to-head throughout the United States.

Source: *see* Petition Volume I at 34.

Threat of Material Injury

Statutory Factors

- ☑ Increases in production capacity, or existing unused capacity, in the exporting country likely to result in increases in imports to the U.S.
- ☑ Rate of increase of the volume or market penetration and likelihood of further increases in subject imports.
- ☑ Whether prices are likely to cause significant price depression or suppression and increased demand for further imports.
- ☑ Inventories of the subject merchandise.
- ☑ Potential for product-shifting
- ☑ Information regarding the countervailable subsidy and whether imports are likely to increase.
- ☑ Any other demonstrable adverse trends indicating the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).

Source: 19 U.S.C. § 1677(7)(F)(i), *see* Petition Volume I at 35-51.

Threat of Material Injury

Domestic Industry is Threatened with Injury By Reason of Imports from Mexico and Turkey

- Mexican producers are likely to increase rebar exports to the U.S. market.
- Raul Gutierrez, Deacero's President, stated that the Mexican government's structural reforms were "not enough to boost the economic development of the country."
- "{T}he lack of sales to the Iraqi market has resulted in increased competition among Turkish rebar exporters." *IREPAS Short-term Outlook*
- Trade remedy orders exist on Turkish rebar in the Dominican Republic and Canada (prelim.); Jordan has a safeguard order that affects Turkey.
- Alternative markets for Mexican and Turkish rebar are increasingly being satisfied by Chinese rebar.
- The global economy is weakening, putting a damper on global demand for rebar.
- Rebar and other long product markets continue to be characterized by oversupply.