BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

Ferrosilicon from Russia and Venezuela	)	Inv. Nos. 731-TA-1224-1225 (Final)

Testimony of Pedro Larrea
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1. Good afternoon. My name is Pedro Larrea. I am Chairman and CEO of Grupo FerroAtlantica located in Madrid, Spain. FerroAtlantica de Venezuela (FerroVen) a producer of subject merchandise in Venezuela is a part of the FerroAtlantica Group of companies. I am pleased to have the opportunity to testify here today before the U.S. International Trade Commission regarding the request for antidumping duties against imports from Venezuela. Appearing with me today is my colleague Antonio Salinas. In my testimony this afternoon, I would like to first tell you a little bit about FerroAtlantica and about the global market for ferrosilicon. Then I will explain to you our approach to operating FerroVen and FerroVen's role in supplying ferrosilicon to the United States.

Background On FerroAtlantica

2. FerroAtlantica is a global producer of specialty metals and alloys with production facilities located around the world. FerroAtlantica is a world leader in the production of silicon metal, and also produces ferroalloys and other

specialty metals products. The FerroAtlantica group has 15 factories for the production of specialty metals and alloys: five in Spain, six in France, one in Venezuela, two in South Africa and one in China. Recently, we announced that we are going to add a 16th plant in Canada, which will produce silicon metal. Our factories produce silicon metal, ferrosilicon (including high purity ferrosilicon), foundry products, silicomanganese, ferromanganese, silica fume, and calcium silica, among other products. In total, FerroAtlantica Group companies produce more than one million tons a year of specialty metals and alloys. The Group is also the largest independent hydroelectric energy producer in Spain, with an additional presence in France and has a growing solar photovoltaic division and has begun industrial scale production of photovoltaic solar-grade silicon metal using metallurgical processes. Finally, FerroAtlantica also owns quartz mines in various locations around the world that we use in the production of silicon metal and silicon alloys.

3. Globally, FerroAtlantica produces both regular and specialty grade ferrosilicon. Specifically, we produce high purity low titanium ferrosilicon, low aluminum, low calcium, low carbon, as well as various proprietary foundry grade ferrosilicon products in our plants in France, Spain, and South Africa. We also produce regular grade ferrosilicon in our plants in France, Spain, South Africa, and Venezuela of course.

Differences Between Specialty and Regular Grade Markets

4. The markets and pricing for specialty and regular grade products are very different. This is the case in Europe and I understand from Ed Hopkins that the same is true here in the United States. Specialty ferrosilicon products have a higher value added than regular grade. This means that there is a higher profit margin on these products. But it also means that the market for these products is much more specialized. Customers who buy specialty grade ferrosilicon products typically require a long qualification process to ensure the quality and consistency of the material. Typically, a specific plant must be qualified, and customers will not let us substitute supply of even the identical product produced in another plant. In the case of foundry products, products are differentiated and are sometimes customized to the needs of specific customers, some of which are proprietary blends that are unique to specific suppliers. Also, specific technical advice is required for the correct utilization of specific products, and intensive teamwork between customer and supplier takes place, in order to customize the products. As a result, suppliers tend to forge long-term relationships with customers, and customers tend to purchase from only one or two suppliers.

5. Regular grade ferrosilicon, on the other hand, is much more of a commodity product, and regular grade ferrosilicon is largely interchangeable, regardless of source. Ferrosilicon constitutes a relatively small share of the total

cost of producing steel, however. This means that customers place a great deal of value on availability and reliability of supply.

The Global Ferrosilicon Market

6. Over the past three years, the market for silicon metal and for specialty grade ferrosilicon has been difficult. In the case of silicon metal, the prices were very depressed in the past two years. More recently, we are seeing that market recover, and we are optimistic about the future.

7. The market for electrical steel, which consumes most of the high-purity low aluminum, low titanium, etc. ferrosilicon, has been very poor primarily due a slow down in the growth of power generation and transmission in the developing world. In Europe, we have seen our biggest customer for high purity ferrosilicon virtually exit the market, with the result that we are going to have to shift to producing less high purity and more regular grade ferrosilicon in our French plant. The drop in demand for electrical steel is a world-wide problem, so I am not surprised to learn that the U.S. industry has done the same thing.

8. Demand for foundry products has also been sluggish. Many foundry ferrosilicon products are used in specialized applications and constitute niche markets that go up and down based on specific market conditions for those end products. Other foundry products are used in the production of automobile

engines and other parts, which have also experienced slow growth over the past few years.

9. During the period of 2011 to 2013, the world market for regular grade ferrosilicon was generally stable as the steel industry slowly recovered from the recession of 2009-2010. While there was certainly no boom market, prices were relatively stable, particularly compared to the market for silicon metal and for other manganese alloys, for example, which saw much more dramatic fluctuations in prices. Real steel consumption in Europe grew in the fourth quarter of 2013 and projections are for a slow but steady recovery in steel demand in Europe and continued increases in consumption in full year 2014.

Role of FerroVen

10. FerroAtlantica purchased its ferrosilicon production facility in Venezuela – FerroVen – in 1998 from the Venezuelan government, which was privatizing the company. FerroVen is located in Puerto Ordaz, Venezuela. The company has three furnaces that produce ferrosilicon, and one furnace that produces ferromanganese and silicomanganese. In addition, FerroVen produces silica fume as a by product of ferrosilicon production.

11. As a subsidiary of FerroAtlantica, FerroVen is not a free-standing enterprise, but rather is integrated into FerroAtlantica's global operations. FerroVen produces ferrosilicon for the domestic market in Venezuela as well as

for export to Europe and the United States. Ed Hopkins will deal with the U.S. market. With regard to Europe, based on CRU data, in 2014, the total ferrosilicon demand in Western Europe (including the UK) was 625,000 tons of contained silicon, while the total production in Europe was only 414,000 tons of contained silicon and only approximately 65,000 tons can be supplied from FerroAtlantica's facilities in Spain and France. The EU currently has duties on Chinese and Russian imports of ferrosilicon, and the duty rates have been in the range of 15.6 - 31.2%. Supply from Ferroven is therefore crucial for the European market.

12. Each year we develop a sales plan for FerroVen based on the realistic production capacity of the plant, the requirements of the local Venezuelan market, our need to supply customers in Europe, and our ability to sell to the United States. This sales plan is normally provided in approximately October-November of the prior year and sets the sales plan for the following year. As Ed Hopkins will explain, we have only a limited volume of ferrosilicon available to sell to the United States each year.

13. In short, as a well diversified multinational company with production facilities in four continents, we regard the ferrosilicon market as a global worldwide market. We assign production of ferrosilicon to our different facilities depending upon relative cost advantages for supplying each geographical market.

The Situation in Venezuela

14. I would now like to share with you some background on the situation in Venezuela. Shortly after we purchased the privatized facility in 1998, Hugo Chavez was elected president of Venezuela. Over time, the Government of Venezuela has increasingly pursued a policy of increasing state control, economic self-sufficiency, and re-distribution of wealth. The government began nationalizing key industries beginning with many of the key companies related to the state owned oil company, PDVSA. After 2007, the Venezuelan economy and the business environment in Venezuela have become more difficult. The Government privatized Sidor, the major steel producer, in 2008, and then proceeded to nationalize virtually every steel and metal producer in Venezuela with the exception of our company.

15. In the last three years there has been a major deterioration in the economy due to foreign exchange controls and price controls. Since companies cannot generate adequate returns at controlled prices, many companies have just stopped producing and marketing everything from basic foodstuffs and other consumer products to a wide range of industrial products. Grocery stores stand empty and industries are unable to source basic raw materials, spare parts, equipment, etc. At the same time, the government has not invested in basic infrastructure for over twenty years. So there are power shortages of all kinds.

The production of ferrosilicon requires large volumes of electrical power, so this is a serious issue for us. Water shortages have become a crisis and not just for drinking water but for industrial water as well.

16. You may have read about widespread riots in Venezuela since the spring of this year and during the summer. Many of our employees have been unable to get to the office due to strikes and road blocks and confrontations with police and protestors.

17. Operating in this environment has been very challenging. To keep FerroVen operating we have to import almost all of the raw materials we use from outside of Venezuela. The same is true for most basic supplies and equipment. If we need to replace a pump, bearings, or other minor piece of equipment, we have to import it. Importing raw materials and other supplies into Venezuela requires us to use dollars or Euros. So we have to carefully weigh the costs and benefits of production in Venezuela. We are proud of the fact that we have been able to continue to operate in this challenging environment and to provide jobs and some measure of stability to the people of Puerto Ordaz during these difficult times.

18. But when I hear the suggestion that FerroVen is an "export platform" directed at the United States, I can only shake my head. First, as the only producer of ferrosilicon in Venezuela, our first obligation is to supply the domestic steel companies in Venezuela, all of which have been nationalized by the

Government in recent years. As the last remaining industrial company in Puerto Ordaz that has not been nationalized, we take this obligation seriously, but it is certainly not a very rewarding kind of business.

19. Second, the transportation infrastructure in Venezuela has eroded significantly as many transport services in Venezuela have become bankrupt or have simply disappeared. Therefore, it is difficult to get raw materials to our smelter or to get ferrosilicon out of the factory or out of the country. We have a number of potential export opportunities in Colombia and Mexico, but we need to have raw materials and we need to be able to transport the goods.

20. We have not shut down our facility and our hope is to operate the facility as normally as possible. However, as I have been explaining, current circumstances pose exceptional challenges: We have experienced rationing of electricity and electricity shortages, we have difficulties in sourcing basic materials, and even access to the plant for workers or transporters has proven to be a challenge.

Summary And Conclusion

21. In summary, FerroVen has been a small and stable supplier of Ferrosilicon to the U.S. market for many years. We have a small share of the U.S. market, and, as Ed Hopkins will explain, we have always priced our product

carefully and responsibly. I am confident that our small volume of imports to the United States has not caused any injury to the U.S. ferrosilicon industry.

22. Thank you very much for the opportunity to testify here today. I would now be happy to answer any questions you have.