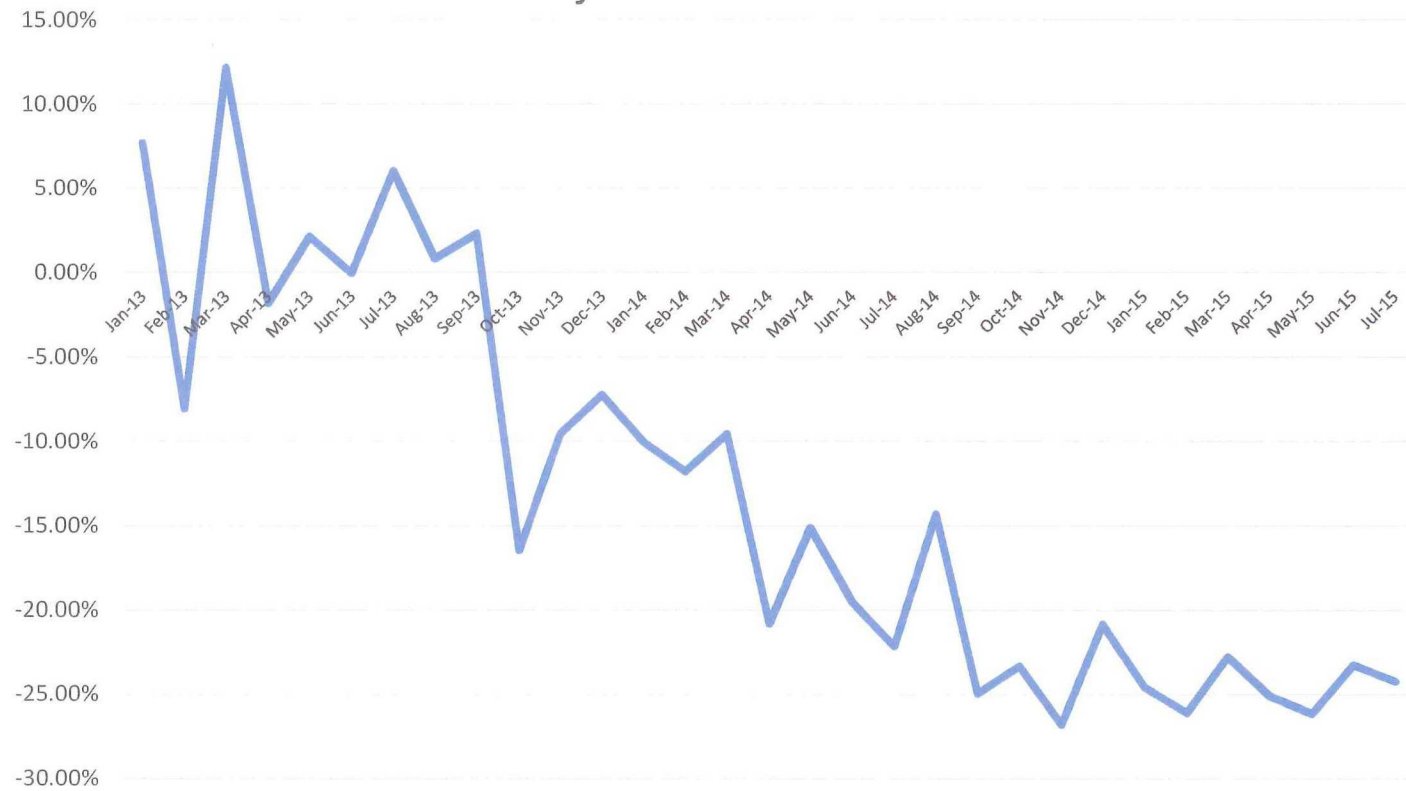


Cold-Rolled Steel

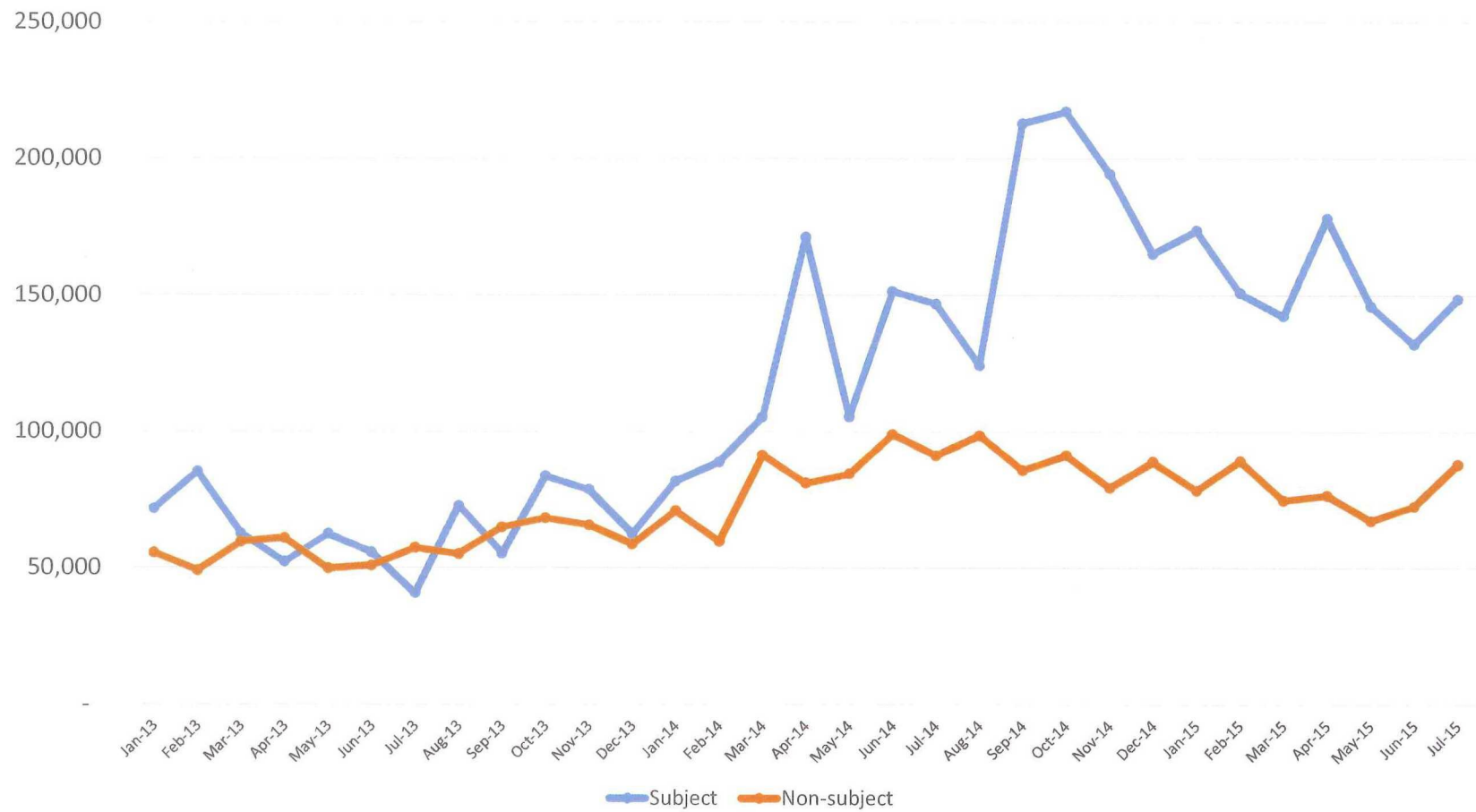
Prof. Jerry Hausman, MIT

May 24, 2016

Graph 1: Percentage Gap for AUVs
Subject AUV-NS AUV



Graph 2: Cold-rolled imports (tons)



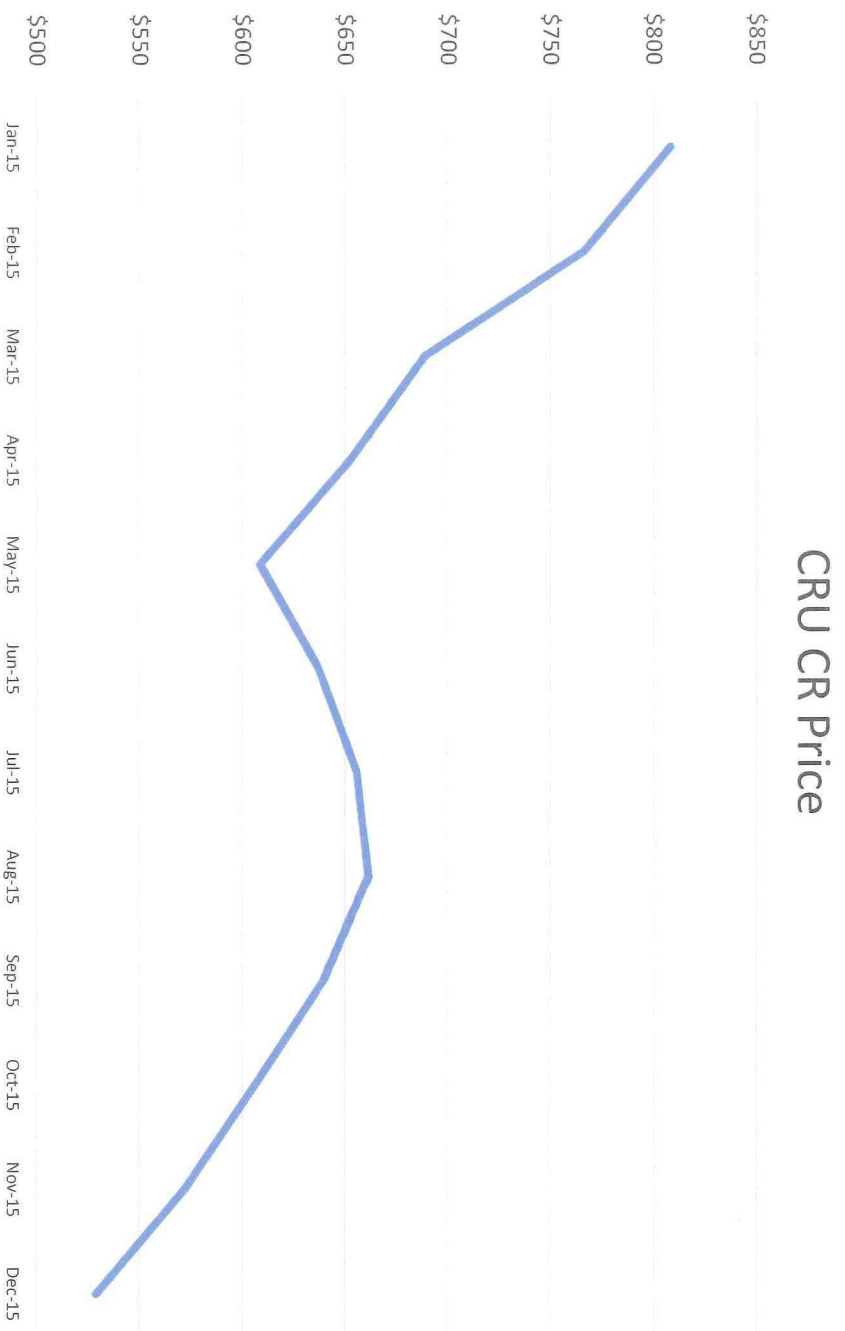
Commission Injury Factors

- **Volume of imports** – Subject imports increased during the period from 2013 to 2015. From 2013 to 2015, subject imports increased by 137 percent.
- **Price** – Significant levels of underselling occurred by the subject imports, resulting in severe price declines in the U.S. market. . Subject imports of cold-rolled steel undersold U.S. producer prices in 123 of 186 comparisons, or two-thirds of the time. This underselling led directly to decreasing U.S. prices. In a strong market, even accounting for changes in input costs, there is no other explanation for such a significant decline in U.S. cold-rolled steel prices.

Impact of Imports

- The surge in subject imports has reduced the domestic industry's sales, production, profits at all levels (gross, operating, net), and headcount
 - In particular, the industry's profitability is lower than one would expect, particularly given the strength of the automotive market.
 - Domestic auto sales are at a very high level. For example, sales of domestic autos and light trucks increased by 21.6 % from 2012 to 2015.
 - Over the period 2013-2015, overall U.S. GDP growth averaged 2.2% per year and growth in automobile sales averaged 7.2% per year.
- Because of the capital intensive nature of steel production, steelmakers must earn strong rates of return during demand peaks in order to cover required investments for the entire cycle

Effect on Prices



Effect of CRU Prices

- 1/15 to 12/15 CRU price decreased by -32%.
- All pricing in the market is affected by CRU prices, including both spot and contract pricing. This outcome is expected from economic analysis, since customers choose whether to use spot or contract pricing, or a mix of both.
- Changes in CRU spot prices affect other spot prices almost immediately.
- Contract pricing is affected in a variety of ways, including when new contracts are entered into and when existing contracts expire and are renegotiated, based largely on spot market prices. Some contracts are short-term, approximately 90 days, while other contracts are typically one year in duration. In addition, during the contract term, there may be built-in price adjustments, based on CRU prices or another price index, which is highly correlated with CRU prices.
- For example, a comparison of CRU prices with spot prices and base prices in the contracts, demonstrates a high correlation between all of these prices. The estimated correlation for large producers is 0.88 (post-hearing brief)
- I estimate lagged effects of changes in import prices for 6 months in terms of overall prices (post-hearing brief)

Threat of Future Injury

- Massive excess capacity in the global steel industry, including with regard to cold-rolled steel and particularly in the subject countries, threatens the U.S. cold-rolled steel industry with further injury in the reasonably foreseeable future.
- The growth rate of China's GDP has fallen in recent years – from 10.5 percent in 2010 to approximately 6.7 percent in Q1 2016. This decline reflects a corresponding decrease in the growth of Chinese construction projects and spending. While Chinese steel demand has peaked, steel production capacity in China continues to increase.
- Demand in other subject producers' home and alternative export markets, such as in the EU and throughout Asia, remains very weak.
- While U.S. cold-rolled prices have been depressed, they are still higher than cold-rolled prices in subject producers' home markets and in third-country markets.

Causation

- US industry lost significant volume
- US industry forced to decreased prices
- Significantly lower US industry profits is the result
- Commission staff has confirmed that volume has shifted and that price reductions were the result of subject imports
- From 2014 to 2015, cold-rolled CRU spot prices decreased by about \$175/short ton, while U.S. producers' raw material costs declined by only about \$86/short ton.
- “Foreign fighter” (FF) requirements are appearing in negotiations and contracts. Foreign fighter requirements mean that U.S. producers have to reduce their prices to at or near the import pricing levels to obtain or keep the sales.