COLD-ROLLED STEEL FLAT PRODUCTS
FROM THE UNITED KINGDOM
Investigation No. 731-TA-1290 (Final)
U.S. INTERNATIONAL TRADE COMMISSION

HEARING TESTIMONY OF CHRISTOPHER McCARTHY

Good afternoon, Commissioners. I appreciate being able to appear here today. My name is Chris McCarthy and I am the President and Director of Tata Steel International (Americas). I have been involved in the global steel industry for more than 25 years. I have worked in the domestic industry as well as for importers, and I believe I have an objective view of the issues presented by this case.

I. UK IMPORTS SHOULD NOT BE CUMULATED WITH IMPORTS FROM ANY OTHER COUNTRY

I understand the ITC normally looks at four factors when deciding whether to cumulate countries in these types of investigations:

1. Fungibility of products sold
2. Geographic overlap
3. Distribution channels, and
4. Simultaneous presence in the market.

I also understand that the ITC can consider other factors as well.

Tata Steel UK's brief addresses each of these factors in detail, but I will focus first on the distribution channel factor. I have a fair bit of experience in this regard and I believe it is a fundamental and important difference in how the U.S. mills and Tata Steel UK do business.

A. Channels of Distribution: Tata Steel UK services a high-end market that requires specialized continuously-annealed products, which many of our competitors will not do. We serve that market by working through a limited number of processors in the U.S. This is very much unlike what the U.S. mills do. Tata Steel UK sells to processors who interface with the end user in "see thru programs." U.S. mills almost exclusively sell directly to OEMs.

Let me tell you how Tata Steel came to develop this role in the United States market:

Tata Steel UK's only production of cold-rolled steel is continuously annealed steel. I can answer questions concerning the attributes continuously annealed CR has over batch annealed product in many applications. There is growing demand for this product in the United States and it is not available from many domestic mills.

In late 2013, when we were considering entering the United States market, there were forecasts of large demand for continuously-annealed steel. A substantial part of that demand would be in the Midwest U.S. market, which fits the logistical capabilities of Tata Steel U.K. It was clear that there was a need for imports, because at that time only one U.S. producer was actively serving that continuously annealed demand – Arcelor Mittal, which had (and still has) three continuously-annealed facilities:

- Its plant at Indiana Harbor, Michigan, which focuses on automotive applications,
- It's I/N Tek plant, which has limited capability, and
- Its Calvert plant.

In addition, ProTec – a joint venture between Kobe and U.S. Steel – had announced in late 2013 that it was bringing on a continuously annealed line. For all of 2014 and substantially all of 2015, however, ProTec's continuously annealed product was going through what we call "homologation" – that is, obtaining approval from end users. Accordingly, we are only recently beginning to regard ProTec as a realistic competitor, and we certainly did not regard them as such in that period.

In addition, there is Thomas Steel Strip. Thomas Steel Strip is affiliated with our parent, Tata Steel Europe. It has a limited capacity to make continuously annealed precision narrow strip, a narrow product with tight tolerances for width, gauge, finish and hardness. Thomas's production is about 90% captively consumed, and its principal competitor for the end product is Worthington, not Tata UK or the U.S. cold-rolled mills.

So as we looked at the U.S. market, we saw a need in the Midwest for continuously annealed that was served only by Arcelor Mittal. We were approached by OEM's and tiers that wanted continuously annealed CR from more than one producer, Arcelor Mittal and the recent startup at Protec. In addition, U.S. independent processors, in many cases, did not have access to continuously annealed CR from Arcelor Mittal and ProTec and were not able to easily buy small quantities.

So we worked out what amounts to supply chains, in cooperation with the processors. We would work together with the processor and its OEM customer to tailor the continuously annealed steel to the OEM's and tier's precise needs. The processor would perform such functions as slitting, blanking, cutting to length and coil sizing.

A great deal of these sales, pursuant to the OEM's demands, were in small lots. At the time Tata Steel UK entered the U.S. market, Arcelor Mittal and ProTec were resistant to selling in smaller lots. Recently, they have begun reluctantly to take some small lot orders, but only at an increased price.

So we occupy a "niche within a niche" that depends on using a different channel of distribution – sales to processors, with whom we cooperate on design and production. This is different from U.S. mills and from other importers.

B. <u>Geographic Differences</u>

We sell, as I said, primarily in the producers' market, especially in the Great Lakes Region. Tata Steel Europe (including Tata Steel UK) has a logistical superiority there. Thus, we do not have any significant competition with the U.S. mills on the West Coast. Nor do we compete significantly with the Koreans or the Japanese, who sell predominantly on the West Coast.

C. Fungibility of Products Sold

Here again, we differ from other suppliers. Continuously annealed steel represents a relatively small percentage of the total U.S. production of cold-rolled steel. Our counsel tells me that the petitioners here, when they told you what product categories should be examined in your pricing analysis, did not suggest any continuous annealed categories.

D. Different Performance in the U.S. Market than Other Imports

Our counsel, Mr. Cunningham, showed me a chart[1] that tracks the volume of imports from the seven countries covered by this investigation. I have attached that graph as Exhibit A to my testimony. It is hard to see, but if you look real closely, you can barely see the line of UK imports inching along near the bottom. We certainly have not shown anything remotely resembling the pattern of imports that you are looking at during the period 2013 to date.

II. IMPORTS FROM THE UK POSE NO THREAT TO THE DOMESTIC STEEL INDUSTRY

Any suggestion that the UK, which consists almost entirely of Tata UK's exports, could pose any threat to the U.S. cold-rolled industry is, frankly, preposterous. No one in this room could honestly say with a straight face that the UK poses a threat.

Our brief goes into detail on all the legal factors I understand you look at, but let me highlight a few factual points:

1. First, the UK is a tiny part of the U.S. market. From my experience, Tata UK represents much less than 1% of the U.S. market no matter how you measure it. You have the actual data and I am sure this is confirmed.

2. Second, the United States has been and always will be a minor export market for Tata UK. We sell to other markets in substantially greater quantities. The European Union is our principal export market.

3. Third, our business model is such that Tata UK never has had anything other than a tiny presence in the U.S. (mostly in the Great Lakes region) and this will not change. We sell continuously annealed steel in small lots to processors rather than end users. This market niche is where we live and will continue to serve.

4. Fourth, we are not subsidized. There is no countervailing duty case against the United Kingdom.

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[1] The non-confidential graph is the Chart in Attachment 10 to the Prehearing Brief of Tata Steel UK, entitled "Total Imports of Cold-Rolled from Subject Sources vs. Monthly Imports from India, Japan, Korea, Russia and the UK."

5. UK prices are not low. You have the data, but I understand that prices of UK imports, on average, significantly exceed those of other imports and, I suppose particularly relevant here, exceed the prices from U.S. mills as well.

6. We do not have any inventories in the normal sense of the term. Any inventories are basically goods in transit and we don't have warehouses in the U.S. I am told that the petitioners here argue that imports enlarged U.S. inventories in 2014 and then were released into the market in 2015. That does not jibe with my understanding of market developments. But one thing is darned sure – that argument has nothing to do with UK imports.

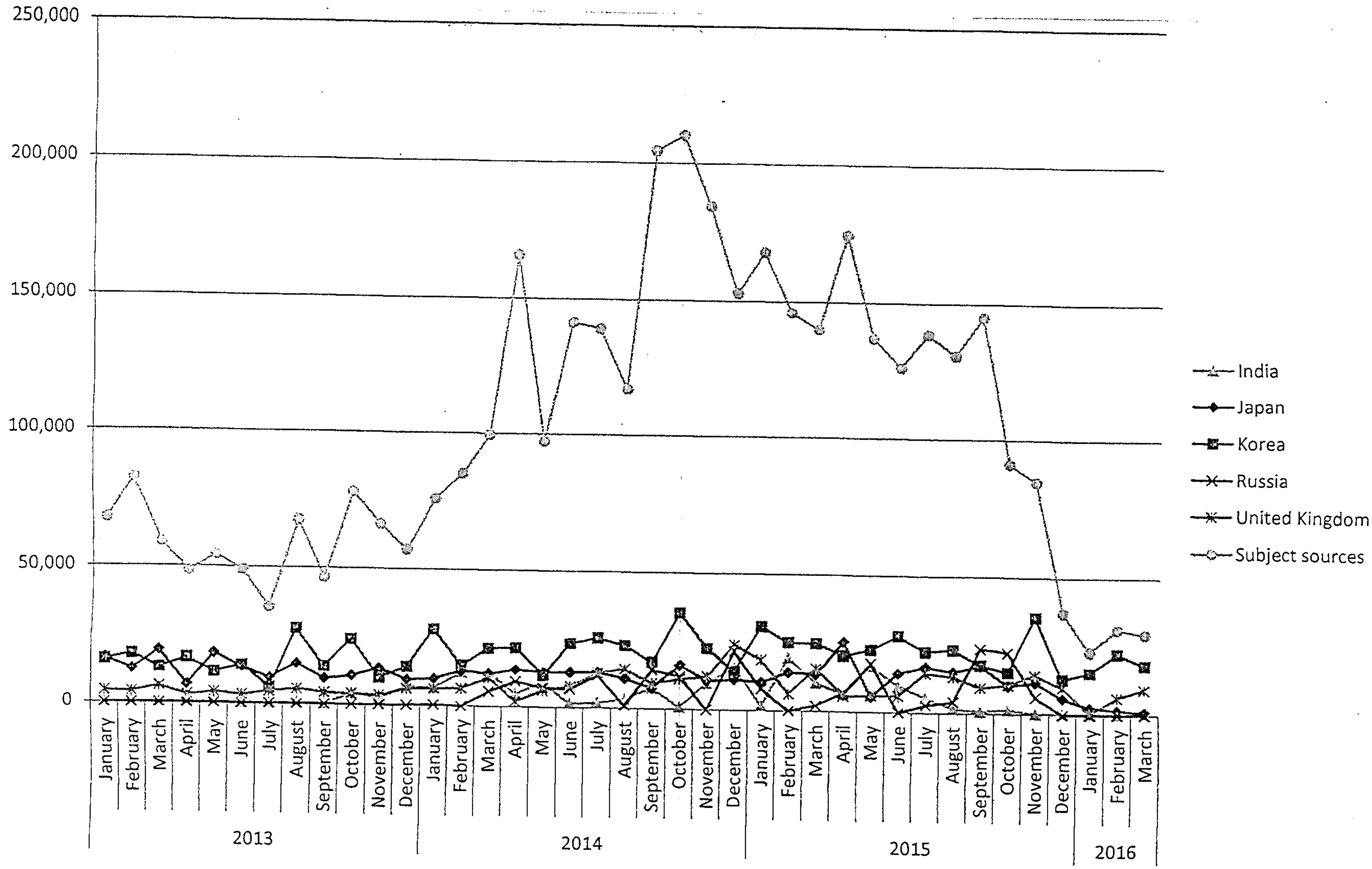
7. There is no way Tata UK would shift production to produce and sell more cold-rolled to the U.S. Downstream products are more profitable for us. We have no reason to shift from hot to cold for example, and the import stats bear out the fact that we decreased exports in 2015.

8. Finally, while not pleasant to address here, it is widely known and reported that our parent company is divesting itself of Tata UK. The parent company's press release[2] is attached as Exhibit B. The process is not concluded yet and it is highly uncertain. As you will understand, I have very limited ability to make public statements about that process, but I will answer questions to the extent that I can do so. We will also say as much as we can in a confidential attachment to Tata UK's post-hearing brief. That said, I suggest that this fact is relevant and goes to the inability of Tata UK to threaten material injury to the U.S. In that regard, I must say that your question (in the Foreign Exporters' Questionnaire), asking for an estimate of our future exports, proved impossible to answer. We went back and forth on that internally, and finally we had to conclude that there is no way, given all the uncertainties, to give any estimate at all.

[2] Attachment 13 to Prehearing Brief of Tata UK.

Exhibit A

Total Imports of Cold-Rolled from Subject Sources vs. Monthly Imports from India, Japan, Korea, Russia, and the UK



Source: PSR at IV-11

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Review of European Portfolio of Tata Steel

Mumbai, March 29, 2016: The Tata Steel Board today reviewed the recent performance of the European business of the Company, more specifically, of Tata Steel UK. It noted with deep concern the deteriorating financial performance of the UK subsidiary in the last twelve months. While the global steel demand, especially in developed markets like Europe has remained muted following the financial crisis of 2008, trading conditions in the UK and Europe have rapidly deteriorated more recently, due to structural factors including global oversupply of steel, significant increase in third country exports into Europe, high manufacturing costs, continued weakness in domestic market demand in steel and a volatile currency. These factors are likely to continue into the future and have significantly impacted the long term competitive position of the UK operations in spite of several initiatives undertaken by the management and the workers of the business in recent years. Even under these adverse market conditions, the Tata Steel Group has extended substantial financial support to the UK business and suffered asset impairment of more than £ 2 billion in the last 5 years.

The Tata Steel Board also reviewed the proposed restructuring and transformation plan for Strip Products UK, prepared by the European subsidiary in consultation with an independent and internationally reputed consultancy firm. Based on the review conducted, the Tata Steel Board came to a unanimous conclusion that the Plan is unaffordable, requires material funding support in the next two years in addition to significant capital commitments over the long term, the assumptions behind it are inherently very risky, and its likelihood of delivery is highly uncertain. Therefore, the Board concluded that it would not be able to support the investment necessary to proceed with the proposed Strip Products UK Transformation plan.

The Company has also been in deep engagement with the UK Government in recent months seeking its support to achieve the best possible outcome for the UK business, within the restrictions of State Aid Rules and other statutory limits. These discussions are ongoing and will continue. Discussions will also continue with Greybull in relation to a sale of the UK Long Products business. The UK Government is also involved in the latter discussions.

Following the strategic view taken by the Tata Steel Board regarding the UK business, it has advised the Board of its European holding company i.e. Tata Steel Europe, to explore all options for portfolio restructuring including the potential divestment of Tata Steel UK, in whole or in parts. Given the severity of the funding requirement in the foreseeable future, the Tata Steel Europe Board will be advised to evaluate and implement the most feasible option in a time bound manner.

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About Tata Steel

Established in 1907 as Asia's first integrated private sector steel company, Tata Steel Group is among the top global steel companies. It is now the world's second-most geographically-diversified steel producer, with operations in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of US$ 22.32 billion in FY 2015, has over 80,000 employees across five continents.

Disclaimer

The document contains statements that may constitute as forward looking statements under applicable securities laws and regulations. These statements are based on the current expectations and certain assumptions of Company's management, of which many may not be under our control and that actual event/transaction may vary from the proposal. The Company neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.

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