

BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

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Hot -Rolled Steel Flat Products)	Inv. Nos. 701-A-545-547 and
from Australia, Brazil, Japan, Korea,)	731-TA-1291-1297
The Netherlands, Turkey, and)	(Preliminary)
the United Kingdom)	
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Testimony of Hyun Mi Cho, POSCO

Members of the Commission Staff:

1. Good afternoon. My name is Hyun Mi Cho and I am Manager in the Steel Business Strategy Department at POSCO. POSCO is the largest hot-rolled producer in Korea. I am accompanied by Dan Eversmeyer of POSCO America. POSCO America is the parent company of UPI, and its President represents POSCO's beneficial interest in UPI on the Management Committee.

2. POSCO is a 50/50 joint owner with US Steel in USS - POSCO Industries (UPI). UPI is a domestic producer of Pickled & Oiled hot rolled, Cold rolled, Galvanized and Tin Plate in Pittsburg, California. POSCO captively supplies the overwhelming share of the hot rolled coil that UPI requires to produce its products. UPI employs over 650 employees and has 488 steel workers represented by the United Steelworkers Union. From its inception, the business model upon which UPI was founded by US Steel and POSCO was that it would

operate as a domestic producer of down-stream flat-rolled products using significant volumes of dedicated long term supply of hot-rolled coil produced by POSCO in Korea. Stated simply, UPI cannot survive without access to POSCO hot rolled coil.

3. The supply to UPI from both partners is based on a price formula. The final price to UPI is a delivered price, inclusive of freight. That price is designed to take into account UPI's prices for its end products and enable UPI to make a profit.

4. Historically, POSCO and US Steel supplied roughly 50 percent each of captive hot rolled supply. Since 2013, however, US Steel's participation in UPI's supply of hot rolled has declined significantly.

5. POSCO increased its share of HR supply to UPI specifically because US Steel pulled back. US Steel has the right to supply UPI half of its HR needs but decided to supply far less in 2014 or the first half of 2015. The reasons were unclear, but in 2014, US Steel had outages in production that disrupted the supply of Hot Rolled until at least July.

6. POSCO remains, by far, the dominant supplier to UPI for the reasons stated. Around 2013, both partners agreed that there was a problem with the hot rolled supply to UPI and that UPI would be authorized to purchase hot rolled from

3rd parties under certain conditions. Both US Steel and POSCO have to approve the 3rd party supply to UPI, and both companies have the right of first refusal.

7. Therefore, in October 2013, five major US domestic mills were requested by UPI to bid on up to 100,000 tons per year of hot bands beginning in 2014. Some mills did not respond, and only one negotiated beyond quality parameters, but their bid did not conform to the requirements set by POSCO and US Steel. Therefore, most third party bands have been imported. Neither the 3rd party bands nor the POSCO supply “compete” with US production. UPI has never re-sold hot rolled into the merchant market.

8. Virtually every major domestic producer with cold reduction facilities has an established dedicated supply of hot rolled. This includes Steelscape, who you will hear from this afternoon, and CSI, which imports slab primarily from its owners. The quantities required to supply UPI are significant, and since integrated producers will supply their own cold rolled and galvanized mills before selling HR on the merchant market, it is not realistic for UPI to rely primarily on the merchant market for hot rolled substrate. Integrated mills have to reserve these quantities in their production schedules. These quantities are not routinely reserved for merchant market sales. The other reason for the importance of dedicated supply is that variances in supply introduce significant variables into the chemistries, dimensions, surface quality, and performance characteristics of the producers’

finished products making it difficult to meet customer specifications in a reliable and consistent manner. Without a guaranteed consistent source of supply, a cold reduction mill such as UPI's cannot run efficiently as it was designed and calibrated to do. In the competitive west coast market, it will not remain in business.

8. UPI was originally designed to run extra large coils. UPI's Pickle Line Tandem Cold Mill, one of the few that runs both Tin and Sheet, accepts coils as large as 1350 PIW ("Pounds per Inch Width") and UPI's downstream facilities have been upgraded to accommodate larger incoming coils as well. The average POSCO hot band coil is 1270 PIW. These large coils enhance UPI's efficiencies and cost effectiveness. Incoming hot band coil size directly impacts line yields and unit productivity. There are few mills in North America that produce coils this large. This means UPI is dependent upon obtaining the vast majority of these high PIW coils from POSCO.

9. Freight is an important issue when considering supply of UPI or any West Coast producer. The freight issue is not only one of cost, it is also one of rail capacity. While there is rail capacity to temporarily meet intermittent needs either for hot rolled supply or finished products such as galvanized or tin plate, the lack of rail car capacity interferes with the ability of mills in the east/Midwest to ship

large quantities of hot rolled coil to the West coast on a timely and regular basis. Regular deliveries to the West Coast in the quantities required could be “problematic” over the long term due to the lack of cars. The west coast is served by only the BNSF and UP Railroads from the Midwest; that is the reality of the situation that UPI faces.

10. There are three re-rollers located on the west coast. UPI is the only producer of tin plate on the west coast, and as a result, the west coast tin plate market is served almost entirely by UPI and imports of tin plate. The mills in the Midwest supply very small amounts of cold rolled annealed, CORE and tin mill products to the west coast. Absent UPI, the west coast will be dramatically undersupplied in cold rolled annealed, CORE, and Tin products, leading to severe economic problems.

11. UPI will only be able to sustain its Cold Rolled, Galvanized, and Tin Mill business if it can assure its customers that their own operations will not be interrupted by UPI’s inability to obtain an adequate supply of hot bands. 90% of UPI’s customers are located in CA, OR, and WA. They are well aware of the problems of depending on steel supply from the Midwest. Those customers will turn primarily to offshore suppliers for their cold rolled, galvanized and tin plate requirements, or close their business due to lack of available steel.

12. In 2014, POSCO's exports of hot rolled increased considerably not only because exports to UPI increased, but because exports of X-70 Grade, required for large diameter line pipe, increased as well. Moreover, POSCO's exports of X-70 jumped significantly in 2015 due to the supply of pipeline projects.

13. Finally, a word about the Korean industry producing Hot Rolled. Dongbu Steel has now closed its hot rolled capacity, leaving only POSCO and Hyundai Steel as producers of Hot Rolled Steel.

Thank you.

