

Testimony of John Cross

Good afternoon. My name is John Cross and I am President of Steelscape, LLC, a US producer of zinc- and aluminum-coated steel with major production facilities in Kalama, Washington and Rancho Cucamonga, California. I have over 28 years of experience in the steel industry, including over 3 ½ years with Steelscape.

At the outset, let me state that *we do not manufacture or sell any hot-rolled steel*. Instead, we purchase hot-rolled coil, or HRC, almost entirely from our two joint-venture owners, BlueScope of Australia and Nippon Steel Sumitomo Metals Corporation of Japan. Steelscape's facilities in Kalama process imported HRC by subjecting it to a series of acid baths, and then use a reversing cold roll mill to reduce the thickness and then ultimately galvanize our steel substrate. We also ship a good portion of the cold-rolled coil we produce in Kalama to our facility in Rancho Cucamonga to apply a zinc-aluminum coating as our Rancho Cucamonga facility does not have a pickling line or cold roll mill. Both of our facilities can paint the metallic coated coil as well. Our two

facilities on the West Coast employ almost 400 people. Together they represent a commitment of over \$150 million to the US steel industry.

Our primary focus is supplying coated and painted steel to the building and construction industry in the Western United States. As part of this focus, we sell about one-third of our production to our affiliated building component companies, BlueScope Buildings North America and ASC Profiles. The remainder is supplied to unrelated consumers of painted, galvanized and zinc-aluminum coils, almost exclusively in the Western US. To support these operations, we must purchase around 400,000 tons of HRC each year.

As a Western US steel producer, our facility is necessarily dependent upon receiving our feedstock from Australia and Japan. Our cold-rolling facility in Kalama, Washington is located immediately next to a deep-water port where ships can offload hot-rolled coil and truck it directly to our production storage area. Our facility is thus ideally located to receive HRC by ship. On the other hand, it is clearly *not* suited to receive HRC by rail. The facility rail infrastructure is designed

to support outbound shipments of 50% of our HRC consumption for further processing in our Rancho facility. We do not have the physical space, handling equipment or tracks to accommodate receiving HRC by rail. As a result, we are designed to function using hot-rolled coil imported from abroad.

It is important to understand that the Western United States is a relatively separate market for steel. Just as we sell virtually all of our coated steel in the Western United States, we have great difficulties obtaining our feedstock from US producers. There are only two producers of HRC in the West, Oregon Steel Mills and CSI. But our product material tolerances eliminate Oregon Steel as a viable source and CSI has only recently expressed an interest in supplying our needs. In addition, we have explored and are currently testing the possibility of purchasing *cold-rolled* coil from CSI and UPI for our Rancho Cucamonga facility.

In order to purchase HRC from other US mills, it would need to be sourced from mills located in the Great Lakes or Gulf areas. We have

explored this option in the past. In 2012-2013, BlueScope of Australia, then our sole owner, was forced to shut down one of its blast furnaces, leaving us with a potentially serious shortage of steel. We therefore contacted the major US mills outside the Western United States to see if they were willing and able to supply us with our needs. Suffice it to say that there were no realistic offers from US mills for ongoing supply. At the time, when there was no indication of dumping cases at all against hot-rolled steel, we could not obtain an offer of steel that was within \$50 a ton of the market price. We were forced to conclude that we simply could not obtain a practical supply of steel from U.S. mills.

Fortunately for us, when BlueScope reduced its supply to us in 2013 we were able to obtain a commitment from Nippon Steel Sumitomo Metals Corporation to purchase a 50% interest in what has now become our-joint venture owner as of early 2013. As part of this commitment, NSSMC agreed to supply us with about half our needs of hot-rolled coil. They essentially made up for the shortfall we faced when our parent, BlueScope, had to reduce its shipments.

A good part of the reason for the impracticability of obtaining steel from Eastern mills involves freight costs. For us to purchase hot-rolled steel from US producers on the Great Lakes or the Gulf, they would have to ship that steel by rail. However, the rail costs of shipping from those mill is between \$40 and \$60 MORE per ton in freight than it costs to obtain the steel from Australia or the Pacific, even at the same ex-mill price. That difference alone would essentially eliminate all of the profit we make on sales of coated steel in the United States, threatening our very existence as a US producer. Recently, the cost of shipping by rail has become even more costly, as US rail companies are experiencing severe capacity constraints and even obtaining steel by rail has become an iffy proposition. And, as I have mentioned, our Kalama plant is not designed to receive large quantities of steel by rail.

At the same time, our two parents have dedicated their exports to the US largely to Steelscape. In the first half of 2015, some 66.2 percent of BlueScope's exports of HRC to the US went to Steelscape. Although I do not have the precise figures for NSSMC, it is my understanding that

virtually all of its exports have gone to Steelscape. This situation both reflects the dedication of our joint-venture owners to Steelscape's operations and underlines the relative isolation of the Western US market. With respect to Australia, for example, BlueScope's importer questionnaire shows that in 2014 over 71 percent of its shipments of HRC went to the West Coast, either to Steelscape or UPI.

It is apparent that under these conditions, imported coil from Australia is not displacing sales of hot-rolled coil from US producers. US mills have historically not been interested in supplying us with meaningful quantities of hot-rolled coil. From time to time in the past we have received occasional inquiries from US mills in the Eastern half of the country when they find themselves with excess steel; they have then offered offer to sell us small amounts of HRC to "fill their production schedules." Occasionally, we have purchased steel from them, but the relatively high costs of shipping steel across the Rockies means that none of these mills has been willing or able to provide us

with HRC on an ongoing basis so as to meet our needs of over 30,000 tons per month.

With respect to West Coast suppliers, there is really only one significant producer of hot-rolled in the Western market, and that is California Steel. However, CSI is primarily a supplier of galvanized steel. As such, they are a competitor for Steelscape's galvanized steel products. It is not in CSI's economic interest to supply us with significant amounts of hot-rolled coil, just so that we can compete with them for galvanized products. We have been able to approach them to supply us with some cold-rolled steel for our Rancho Cucamonga galvalume operation, since CSI does not make galvalume steel. But as a supplier of HRC they are just not a viable option.

Given this situation, it is obvious that Steelscape's importation of hot-rolled coil from Australia and Japan does not injure or threaten the US hot-rolled steel industry. Our imported hot-rolled coils do not deprive the US hot-rolled steel industry of a single sale, because US

mills simply cannot offer viable supply. Thus, our imports take no market share from the domestic industry.

On the contrary, if we could not purchase hot-rolled steel from Australia or Japan, our best hope would be to try to obtain it from other Pacific sources. We would not purchase HRC from the domestic industry. If we cannot obtain sufficient HRC from other import sources, our ability to continue as a domestic producer of coated steel will be imperiled. This would put at risk not only our operations in Kalama, Washington and Rancho Cucamonga, California, but also the 2,100 employees of our building component companies, both of which depend upon our production of high-quality painted, galvanized and galvalume steel coils for their production of building components.

As a US producer of coated steel, I am sympathetic to US producers' concerns with imports. We have faced stiff competition from Chinese suppliers of coated steel and have supported the antidumping case against them. But the hot-rolled steel we import from Australia and Japan does not injure or threaten the US hot-rolled steel industry at all.

On the contrary, it is essential to our being able to compete as a viable domestic producer of coated steel.

Thank you

