



ECONOMIC CONSULTING SERVICES, LLC

BEFORE THE

UNITED STATES INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF

**CERTAIN HOT-ROLLED STEEL FLAT PRODUCTS FROM AUSTRALIA, BRAZIL,
JAPAN, KOREA, THE NETHERLANDS, TURKEY, AND THE UNITED KINGDOM**

Inv. No(s). 701-TA-545-547 AND 731-TA-1291-1297 (Final)

TESTIMONY AND EXHIBITS TO TESTIMONY

OF

BRUCE P. MALASHEVICH

ECONOMIC CONSULTING SERVICES, LLC

AT

HEARING

August 4, 2016

Washington, D.C.

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This case is novel in my experience in that an issue normally given cursory treatment is actually quite central to the Commission's deliberations, based on my reading of the Commission's just-issued opinions in the cold-rolled and CORE cases. That issue is what the domestic industry's supply response would have been if subject imports had not increased as they did in 2014/2015. Otherwise known as the elasticity of domestic supply. In cold-rolled and CORE the Commission opined that domestic producers' supply would have substituted for the entire increased volume of subject imports, based on the domestic producers' reporting of a substantial amount of excess capacity over that period.¹

I respectfully submit that that analysis does not work in this hot-rolled case, because we now have a complete history of the industry's response to the price increases that occurred in the first half of 2016 and which are still continuing as of July. That full history did not exist in the record of the Commission's final determinations in cold-rolled and CORE. But now it serves as a useful test case for assessing what the realistic supply responsiveness of the domestic industry might have been in 2014 and 2015 if subject imports had not increased.

I must emphasize that in no way am I suggesting that the capacity figures reported by domestic producers are unreliable, misleading or deliberately inflated. Nor am I suggesting that they should be rejected by the Commission. I am suggesting only that, in

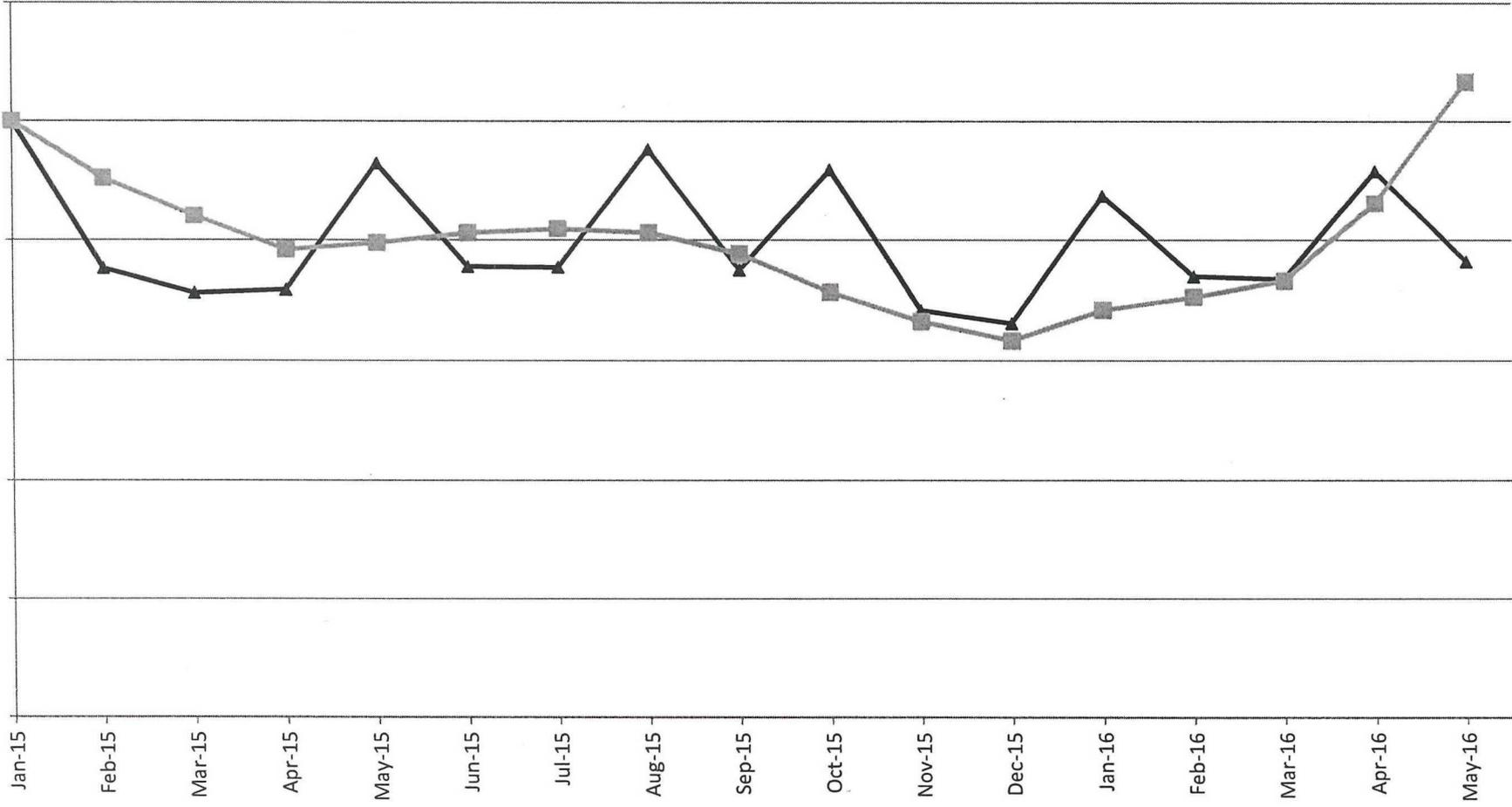
¹ Petitioner ArcelorMittal at p. 37 to its prehearing brief attempts to quantify so-called "Revenue Lost to Subject Import Surge." But an arithmetic error needs to be corrected. AMUSA sums the alleged lost revenues to subject imports from both the 2013-2014 and 2013-2015 periods, an approach which double counts subject import volumes from 2013 to 2014. The error effectively doubles the alleged effect and overstates the volumes of subject imports over the POI.

The solution I propose is to accept the reported capacity numbers for what they are but then test them against actual developments in the marketplace. The period beginning in January 2015 through the present (for which data are available) is an excellent window into the industry's behavior because it includes both a period when prices of HR were rapidly falling (through roughly December of that year) and the period beginning in January 2016 when prices rose more sharply and more rapidly in just a matter of months than at any other point in more than a decade. During that same period (January 2015 through the present) volume of imports steadily fell and then collapsed in 2016. In the first half of 2016, the combination represented a perfect test case of the interaction of sharply higher prices and the near-exit of subject imports. What better conditions in which to observe the actual supply responsiveness of domestic shipments – and by implication the realistic amount of excess capacity on hand-- than during that period?

I invite you to examine my Exhibit 1. This Exhibit shows indexed monthly movements in AISI's measure of total U.S. raw steel production during the relevant period in relation to the American Metal Market price series for common carbon steel HR. (Although raw steel also is used to produce all other carbon flat products the Commission is aware that prices for the various flat products tend to move very closely together.)

The only reasonable conclusion is that the apparent excess capacity on which the Staff Report's analysis is based does not reflect the industry's realistic available capacity to respond to sharp increases in price and demand. The failure of domestic shipments to respond more than "modestly" to the extraordinary 2016 increase in price and evaporation of imports in 2016 thus appears to explain why domestic shipments increased sufficiently to supply only a portion of the large increase in demand in 2014, with imports – both subject and non-subject – increasing to supply the rest of that 2014 increase in demand.

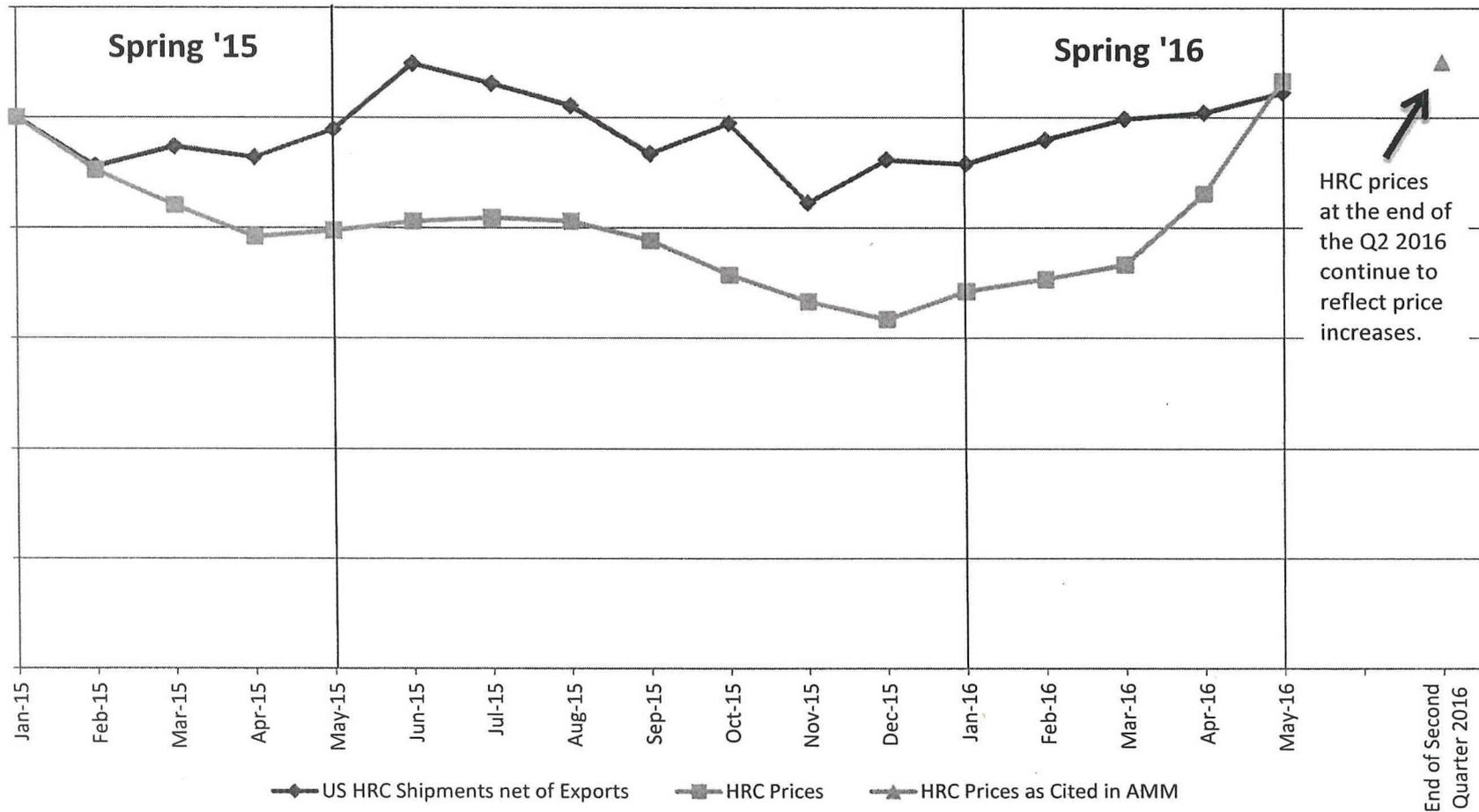
Exhibit 1
US Raw Steel Production vs. Domestic HRC Prices
Jan 2015 - May 2016
Index: Jan 2015 = 100



Sources: AISI, AMM

▲ US Raw Steel Production ■ HRC Prices

Exhibit 2
HRC - US Shipment Volumes vs. Domestic HRC Prices
Jan 2015 - May 2016
Index: Jan 2015 = 100



Sources: AISI, AMM, "Nucor eyes further gains as 2d-qtr. net rises (AMM, July 21, 2016). Second quarter price indexed to HRC Prices, January 2015.