TESTIMONY OF JOHN JUNKER

Good afternoon. I am John Junker and I am General Manager of Sales and Marketing of Tisco Trading USA in Canonsburg, Pennsylvania. I have worked in the stainless steel industry for what will be 40 years this June. I went to school at Edinboro State University in Pennsylvania and then went into the industry immediately after graduation from college. I worked for J&L Specialty Steel and for Thyssen-Krupp in various sales, marketing and management positions. In 2008 I came to work for Tisco to head up their sales and marketing efforts.

Tisco had a desire to start up an operation in the U.S. that would mirror the way that European steel companies sold, which included not selling through traders and understanding the U.S. market better in order to achieve maximum profitability. We also were able to advance credit terms and establish a claims system in order to reflect the way that the U.S. industry operates and got to know our customers better. Because I knew many of these customers already, Tisco thought that this would be the best way to maximum the profits for the company. As part of this we joined trade organizations and supplied hot bands to the Thyssen Krupp plant in Alabama that later was purchased by Outokumpu. We also supplied Allegheny with 60 wide hot bands. This was during the 2013-2014 period.

I would like to start my remarks by discussing pricing in the U.S. industry because the pricing structure is critical in understanding the profitability of the U.S. industry. The overwhelming drivers of profitability, up and down, are the surcharges, not the base prices. Surcharges are NOT a pass through, they are a profit center, and sometimes a large profit center. While the US industry tells its customers otherwise, this is simply the industry's way of pretending that price increases are "out of their control" and just a wash, when in fact they are no such thing.

Let's start with the history of the surcharges in the stainless industry. In the mid-1980s due to rising nickel prices, the US industry first introduced the surcharge mechanism. At that point the surcharge was based on a factor of 1.1 times the nickel content in the material, times the monthly published price minus the trigger price. At this point no other component was part of the surcharge, but it only applied to nickel. Keep in mind that the 1.1 factor represents an estimated recovery rate. In other words it represents a loss rate of 10% in the production process. Even at that time this was very favorable to the mills, because at that time the loss rate was probably around 5-7%. So it was a money maker even then.

Then beginning in 1990 the surcharge went away for a number of years because the published nickel price fell below the nickel trigger price and thus there was no adjustment. In 1994 the surcharge was reintroduced because nickel prices rose.

In 1994 when the surcharge began to be applied again the factor was adjusted upward by the US industry from 1.1 to 1.2. This was simply an arbitrary adjustment upward by the domestic industry, and much to the surprise of many in the domestic stainless steel industry, it was accepted by the market. Clearly this meant that profits went up because efficiencies were getting better, not worse. It became a huge money maker when the prices for inputs such as nickel were high.

The money making effects of the surcharges are enhanced even more by the fact that the US industry's melt is not based totally on virgin alloys like nickel, but instead primarily on scrap, which is much less expensive. So this adds to the profitability from surcharges when the prices of the commodities are high.

In the early 2000s other raw materials such as chrome and magnesium were added to the surcharge mechanism. Thus the US industry became even more dependent on surcharges for profitability.

The effect of the surcharges on profitability is really just a matter of math. For example, if total nickel price was $3 per pound and the trigger was $2, then the surcharge formula is applied to $1. So for every dollar that nickel increases the profit on the surcharge for nickel will be at least 10 cents. Conversely, if nickel prices are falling, then the profits on the surcharges and the overall profits also will fall.

We can see this in the period outside the period of investigation as well as in the current period. In 2007 the industry surcharge in July 2007 was $2.21 per pound, this generated record profits for the US stainless industry. Surcharges were about 75% of the total price and the base price was about 25% of the total price. In 2015, base prices were about the same but base prices were about 46% of total price based on published reports, and the industry suffered. This illustrates that the surcharges are the driver of profits up and down, and it has nothing to do with Chinese imports filling the gaps in supply in this market.

Let me turn now to the critical year of 2014 and what happened in the market. There was a major increase in early 2014 in US demand mainly due to an increase in demand for appliances and a construction increase, where there was pent-up demand. Much of this demand was for lighter gauge SSSS where the

rolling time is longer for the US mills, which drastically reduces the rolling capacity for the mills.

I have reviewed the presentation of Outokumpu from September 16, 2014, which we attached as Exhibit 5 of our brief. There was discussion of the charts by Stephen Lacor of Outokumpu, who prepared the presentations, and he showed the chart on page 7 that shows apparent consumption in the NAFTA market. The chart shows a black line, sometimes solid and sometimes dotted, that Mr. Lacor explained represented actual capacity, and he shows that there is a shortfall in capacity. There is no doubt that this shortfall had to come from imports from somewhere, whether it was from Petitioners' related mills or from China. One reason for Mr. Lacor's presentation was to show the need for the additional capacity that Outokumpu was bringing on in Alabama.

As early as April 2014 we began to receive inquiries and some orders as a result of this increased demand. You need to understand that most of our customers are service centers. After many years in this industry I have observed that such service centers react to increased demand by overbuying because they are concerned with shortages and do not want to turn customers away. Thus their inventory levels often increase during periods of increased demand.

This panic was particularly so in 2014 because after the increase in demand was obvious and came on top of the major supply disruption by Outokumpu beginning in June 2014. We need to distinguish this sort of major supply disruption from the ordinary issues in the industry that might be suffered by a company like AK, or by delays in our own shipments. This Outokumpu disruption was a major and extraordinary disruption as can be seen from Outokumpu's own statements. We saw this in the requests from many additional customers who had not bought from us before but now were concerned about obtaining supplies of SSSS and placed orders.

Then, in 2015 there was a 7 month lockout by Allegheny. While I do not think that this disruption was as severe as what happened with Outokumpu, it did cause continued concern in the marketplace. The other significant thing that happened in the US market in 2015 was a price war that was started by Outokumpu to "fill in the mill." NAS quickly reacted with their own price cutting. All of this happened as the surcharges were dropping severely. Clearly these events had a huge impact on profits of the US industry.

I want to make clear that not all customers were affected equally by the shortages. As always, the US industry took care of its major customers and those customers may not have been affected as severely as others. But we had many

customers who were concerned about supplies and were not able to get product in a timely manner. So the Commission should rely on the overall picture and not just stories from a few companies.

I hope that the Commission will understand what happens when customers believe that they may not get product. When we have a major disruption such as happened with Outokumpu in 2014, combined with increased demand, and then when other companies put customers on a "controlled order" basis, this causes companies to have great concern and look elsewhere for products. So if a company buying under a controlled order system thinks that it will get 100 of a product based on last year's purchases, but thinks it will need 120 due to increased demand, and also sees a major mill such as Outokumpu have huge disruptions, it is likely to believe that it will not even get the 100 so it may order 130 or 140. This is what happened in 2014. So when the US industry says it was not turning customers away, that may be true, but it misses the point. Late deliveries may have been promised but this did not meet the customers' needs and they turned to other sources.

Finally, I want to discuss what happened with the base prices in 2015 and 2016. In 2015 the base prices did fall in the second half of the year due to the price war started by Outokumpu. By the last half of 2015, before this case was

filed, Tisco's orders had fallen off very substantially, as had orders from other Chinese producers, and they cannot be blamed for these falling base prices. As you can see when you look at the import data, 64% of the total 2015 shipments from China came in the first 5 months of the year. These orders will booked in 2014 when prices were high and there was a surge in buying due to concerns with supply availability. By the end of 2015 Chinese imports had returned to traditional levels. By 2016 this price war had dissipated and there were shutdowns by Allegheny and increased demand in the first half of 2016 that led to base prices increasing somewhat. However, prices still were not at levels we saw in 2014. This was due to continuing low surcharges.

Thank you for your attention and I will be glad to answer any questions.