ECONOMIC CONSULTING SERVICES, LLC

BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF
FABRICATED STRUCTURAL STEEL FROM CANADA, CHINA, AND MEXICO
Inv. Nos. 701-TA-615-617 and 731-TA-1432-1434
(Final)

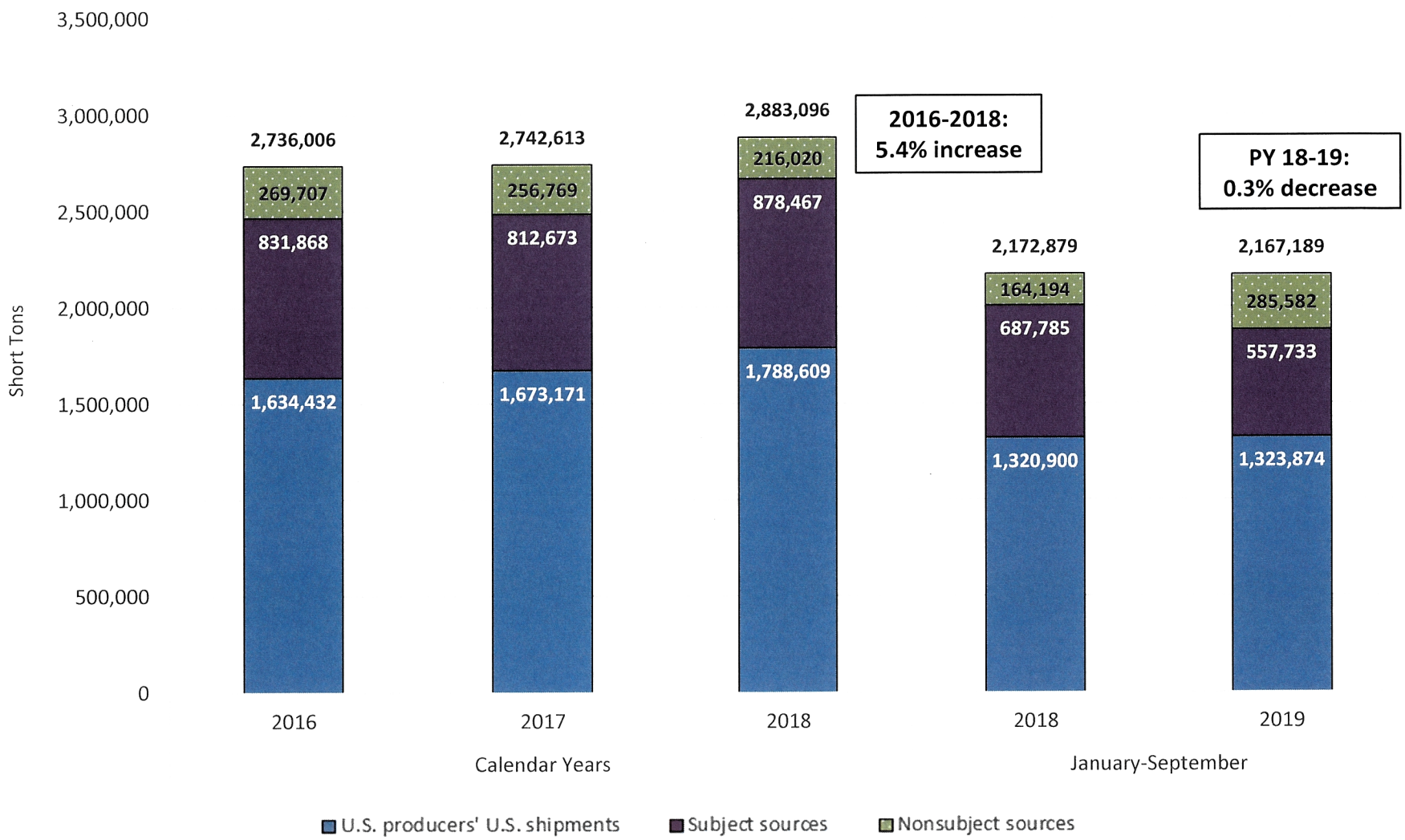
EXHIBITS TO THE TESTIMONY OF JIM DOUGAN
VICE PRESIDENT
ECONOMIC CONSULTING SERVICES, LLC

January 28, 2020

Washington, D.C.

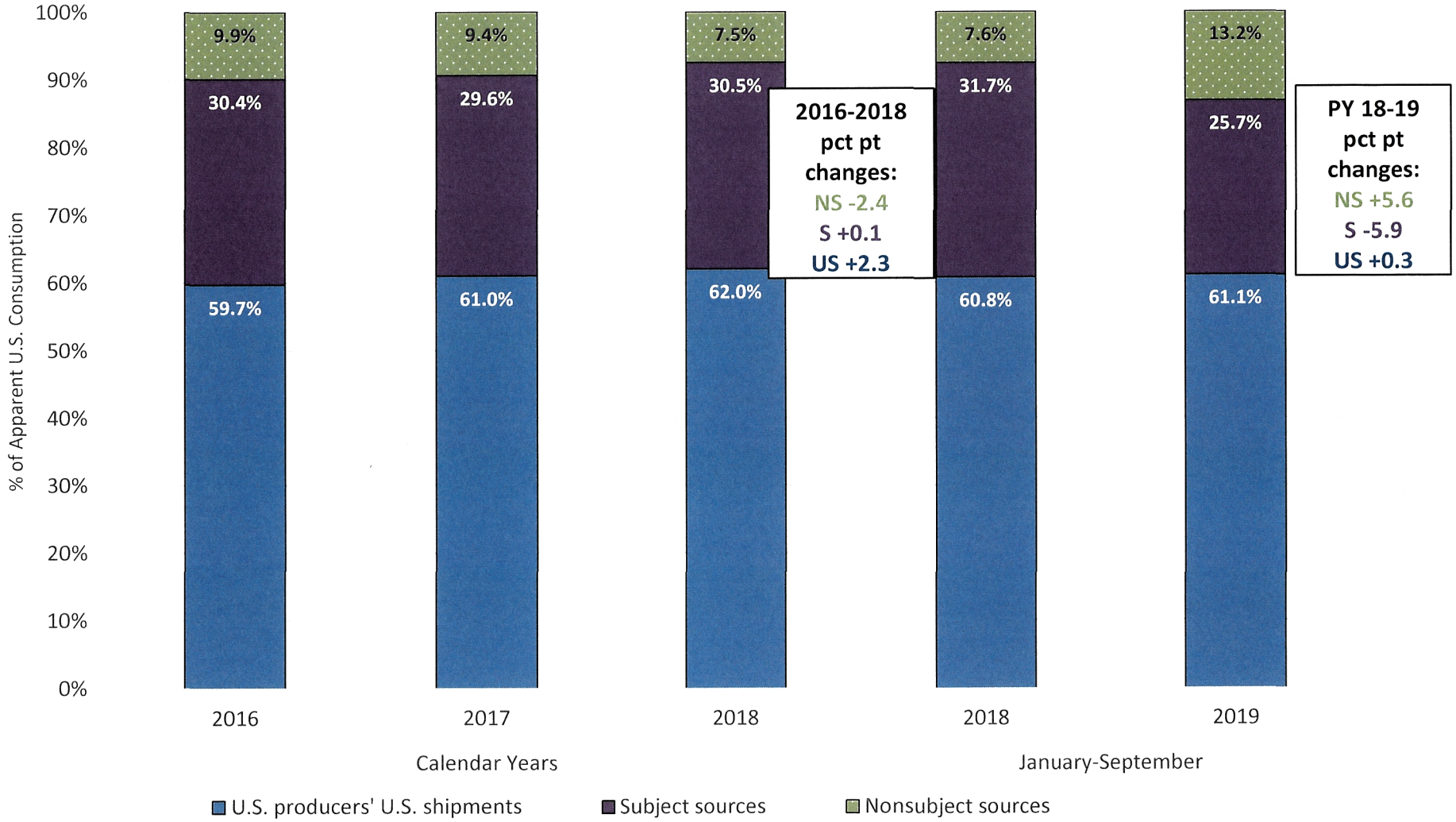
PUBLIC VERSION

Apparent U.S. Consumption (As Reported) Grew Over POI



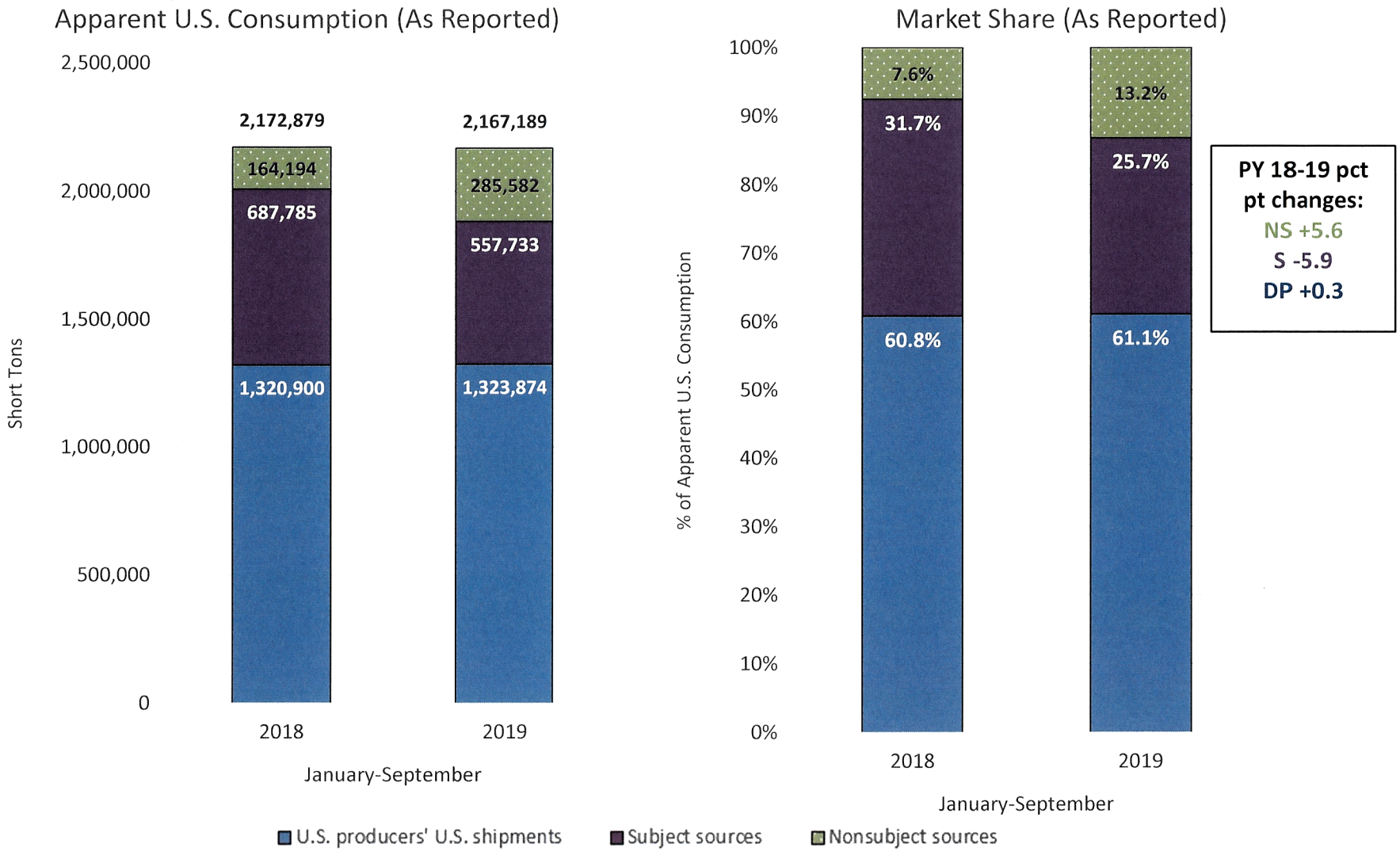
Source: Prehearing Report at Table C-1.

Reported Domestic Market Share Grew While Subject Share was Flat



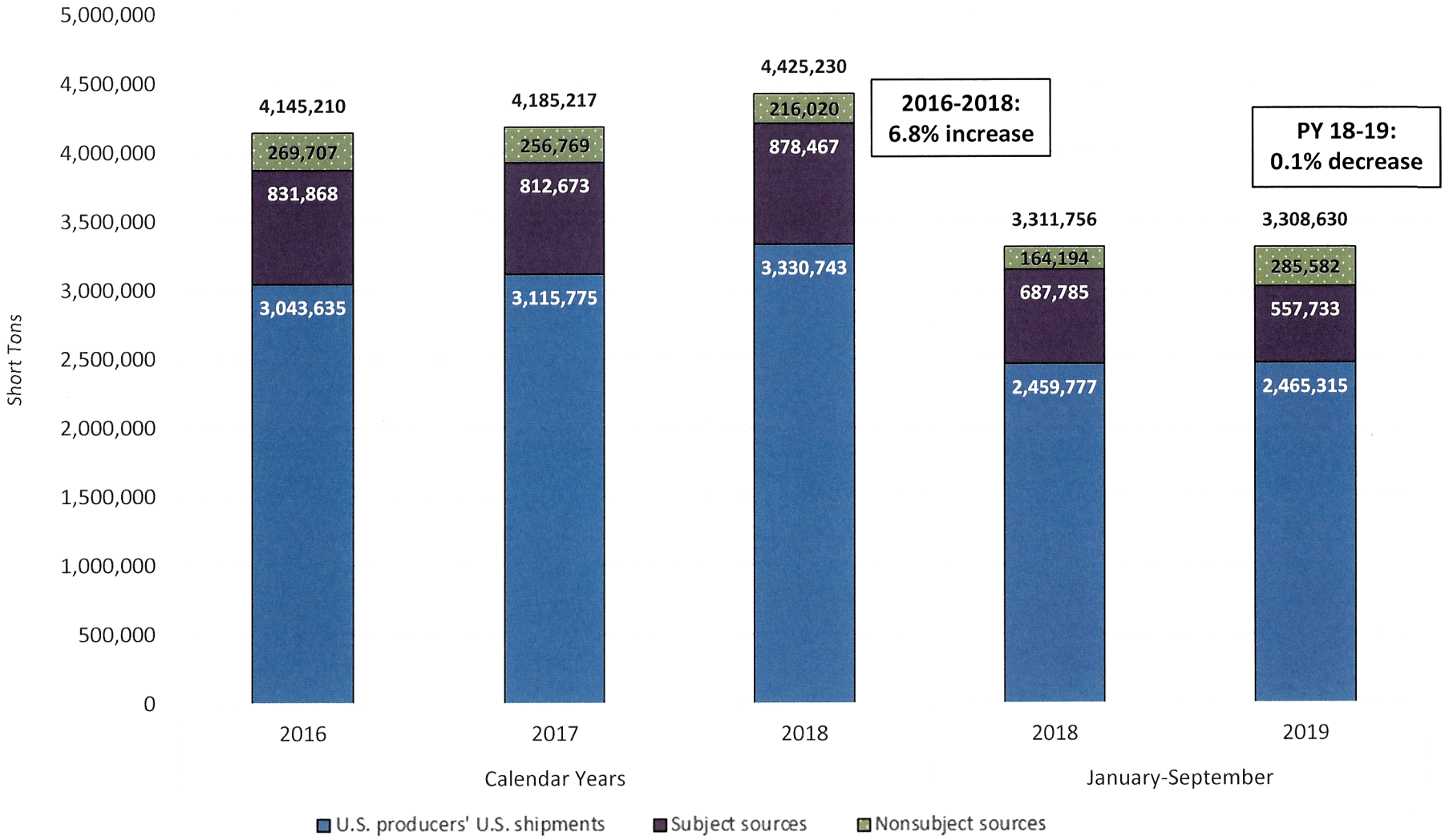
Source: Prehearing Report at Table C-1.

Between Interim Periods, Nonsubject Imports - Not Domestic Producers - Filled Gap Left by Declining Subject Imports



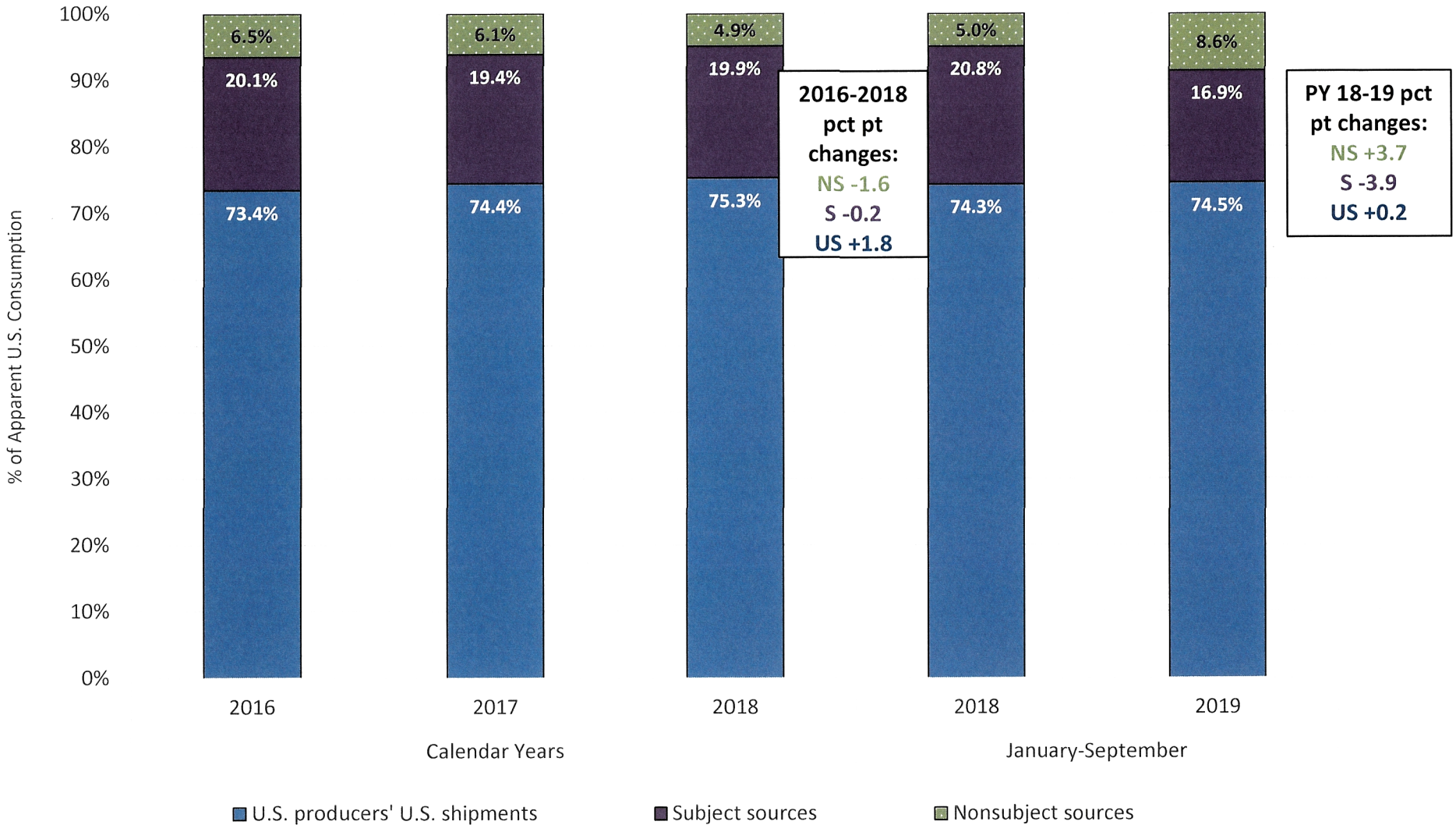
Source: Prehearing Report at Table C-1.

Apparent U.S. Consumption (Revised) Grew Over POI



Source: ECS Analysis at Exhibit 1.

Revised Domestic Market Share Grew While Subject Share was Flat



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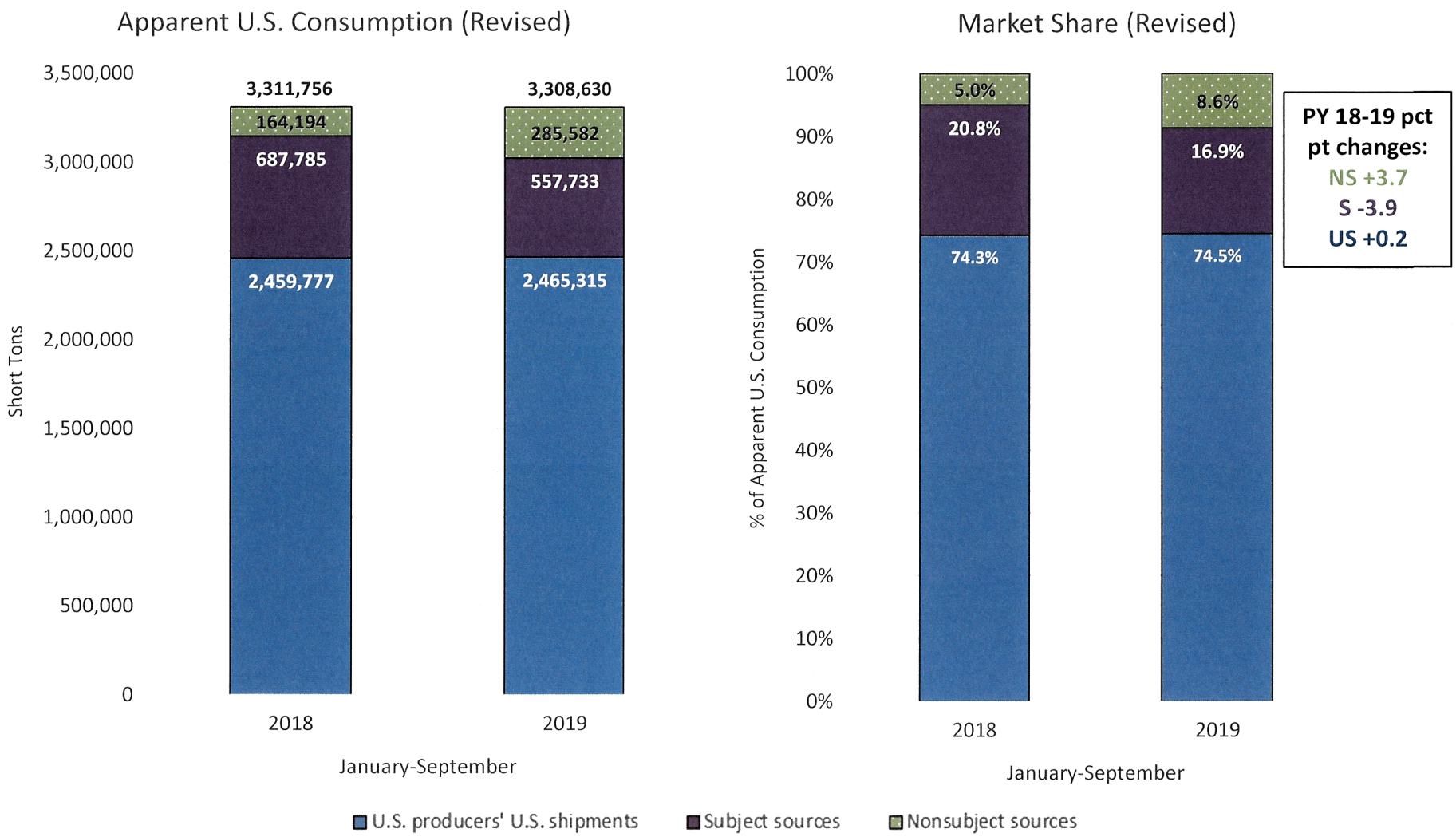


Source: ECS Analysis at Exhibit 1.

Domestic Producers' Own Production Data Prove That Assumptions Underlying Capacity Estimates Are Flawed and Unrealistic

Reported 2018 Capacity (Based on Implied Hours/ST)	2,474,736
Actual 2018 Capacity (Based on Actual Hours/ST)	1,834,994
2018 Production	1,621,409
Reported 2018 Capacity Utilization	65.5%
Actual 2018 Capacity Utilization	87.9%

- Domestic Producers ***estimated*** capacity based on an assumption that floor workers could produce (on average) 1 ton of FSS in **10.7** hours, but their ***actual*** production data show it took (on average) **15.7** hours to produce 1 ton

- This means that:
  (a) domestic industry capacity is greatly <u>overstated</u> (by 34.8%)
  (b) domestic industry utilization is greatly <u>understated</u> (by 22.4 pct pts)

Source: ECS Analysis at Exhibit 3.

Conditions of Competition in the FSS Industry Preclude Analysis of Price Effects

- Price of FSS is embedded in the cost of the larger project
- 16 out of 28 purchasers do not receive bids with prices of FSS itemized
- FSS accounts for about 30% of the total cost of a project

Sources: Prehearing Report at V-9 and II-9-10.

Total Bid Prices Do Not Provide Meaningful Comparisons

In the 1988 case, the Commission found:

- "…the price information on FSS for buildings consists of ***total bid prices*** for the erection of steel skeletons for buildings. The FSS is included in the bids along with engineering services, erection costs, and the cost of other products necessary for the erection of the building."

- "Petitioner urged the Commission to compare the ***full bid prices*** while admitting prices for FSS alone were not available. ***This would be meaningless*** -because a large portion of those bids are for services or for products not subject to this investigation."

In this investigation, the Prehearing Report States:

- "Bid data is analyzed on the basis of the ***total cost of the bid***, which may include other associated services and costs in addition to the cost of the fabricated structural steel."

Sources: *Certain Fabricated Structural Steel from Canada*, USITC Publication 2062 (February 1988), Preliminary Determination at 13-14; Prehearing Report at Tables V-2 and V-3.

Total Bid Prices Do Not Provide Meaningful Comparisons

- Only 5 of the [ ] bids compared in Petitioners' Prehearing Brief included price of FSS
- The remaining [ ] provide only total cost comparisons, which is ***meaningless***

Source: Petitioners' Prehearing Brief at Exhibit 1.

The Majority of Purchasers Are Unable to Compare FSS Prices Across Bids

- 23 of 28 purchasers report “always” or “usually” purchasing lowest priced product
- Of those 23, only 9 reported that suppliers itemized bids
- Of those 23, only 7 provided bid data with any prices of FSS broken out

Source: Purchasers’ Questionnaires at III-24, V-6a, and V-8.

No Price Depression by Subject Imports, as Domestic Prices Increased Over the POI

- U.S. Producers' U.S. Shipment AUVs increased from $2,723/ST in 2016 to $3,144/ST in 2018 (15.5%)
- Increased from $3,120/ST in interim 2018 to $3,178/ST in interim 2019 (1.9%)

Source: Prehearing Report at Table C-1.

The Commission Found No Price Suppression in the Preliminary Phase of This Investigation

- "The record indicates that the domestic industry's higher COGS to net sales ratio in interim 2018 was largely attributable to an increase in the industry's raw material costs, which was not likely to be ***immediately reflected*** in the industry's FSS prices given the lack of raw material indexing provisions in most domestic producers' contracts."

Source: *Fabricated Structural Steel from Canada, China, and Mexico,* USITC Publication 4878 (March 2019), Preliminary Determination at 32-33.

Raw Material Price Increases Driven by Sec. 232 Tariffs

- 87 of 98 responding U.S. Producers indicated that 232 tariffs affected the U.S. FSS market

- 60 of 105 responding U.S. Producers indicated that 232 tariffs increased raw material costs for FSS

Source: Prehearing Report at figures V-1 and V-2; Tables II-4 and II-5.

Fourth Quarter 2018 Data Prove That Subject Imports Did Not Suppress U.S. Prices

	2016	2017	2018	Q4 2018	PY 2018	PY 2019
Total Net Sales	4,626,291	4,908,695	5,823,858	1,570,099	4,253,759	4,369,974
Total COGS	3,479,315	3,732,970	4,536,083	1,207,317	3,328,766	3,367,362
COGS/Net Sales	75.2%	76.0%	77.9%	76.9%	78.3%	77.1%

Source: Prehearing Report at Table C-1.

Net Sales AUVs Rose More than Unit COGS

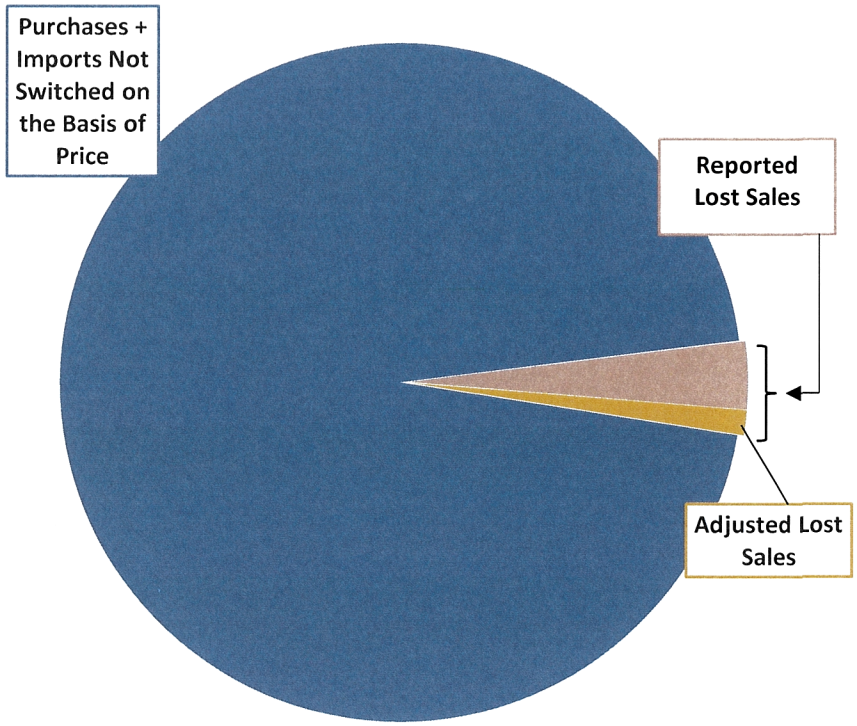
$/short ton	2016	2017	2018	Change 16-18
Average Sales Value	$2,790	$2,892	$3,202	$412
COGS	$2,098	$2,199	$2,494	$396
Gross Profit	$692	$693	$708	$16
Operating Income	$190	$193	$206	$16
Net Income	$149	$252	$207	$58

$/short ton	PY 2018	PY 2019	Change 18-19
Average Sales Value	$3,164	$3,266	$102
COGS	$2,476	$2,517	$41
Gross Profit	$688	$749	$61
Operating Income	$196	$243	$47
Net Income	$222	$219	($3)

Source: Prehearing Report at Table C-1 and VI-1.

Reported Lost Sales are a Tiny Share of Reported Purchases + Imports Over the POI

- Total reported quantity of FSS switched on the basis of price was less than 5% of total reported purchases and imports
- Several purchasers who reported switching on the basis of price did not report itemized bids or a separate price of FSS
- Only 3 of 28 responding purchasers indicated U.S. producers had lowered prices to compete
- Only 2 of those 3 reported itemized bids



Source: Prehearing Report at Tables V-4 and V-10.

Absolute Profits Show Subject Imports Had No Adverse Material Impact on Domestic FSS Industry

	2016	2017	2018	% / pct pt Change
Gross Profit	1,146,976	1,175,725	1,287,775	12.3%
Operating Income	315,244	327,010	374,091	18.7%
Net Income	224,933	388,189	339,421	50.9%
Operating Margin	6.8%	6.7%	6.4%	-0.4%

Source: Prehearing Report at Table C-1.

Employment and Investment Indicia Indicate No Adverse Material Impact on Domestic FSS Industry

	Calendar years			January-September	
	2016	2017	2018	2018	2019
Average number of PRWs (number)	18,077	17,767	17,989	18,277	18,766
Wages per Hour	$24.73	$25.08	$26.60	$25.28	$26.34
Assets ($1,000)	2,476,469	2,575,564	2,997,829		
Return on assets	11.1%	11.1%	10.6%		
Capital expenditures ($1,000)	86,770	93,497	147,124	98,993	104,888
Depreciation ($1,000)	81,502	87,030	90,980	67,637	78,607
CapEx/Depreciation Ratio	106.5%	107.4%	161.7%	146.4%	133.4%

Source: Prehearing Report at Tables C-1, VI-3, and VI-9.