BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.

In the Matter of **SILICOMANGANESE FROM AUSTRALIA**	Investigation No. 731-TA-1269 (Final)

TESTIMONY OF ROD TIDEY,
on behalf of the Tasmanian Electro Metallurgic Company Pty Ltd. (TEMCO) and Samancor AG
Thursday, February 11, 2016

Good afternoon. My name is Rod Tidey. I am TEMCO's Finance Lead. TEMCO produces silicomanganese and ferromanganese at a single facility in Bell Bay, Tasmania and is the only producer of silicomanganese in Australia.

TEMCO is currently owned by South32 and Anglo American in a 60-40 joint venture – with South32 operating the TEMCO facility. Until 2015, the majority shareholder and operator of TEMCO was BHP Billiton. In May of 2015, BHP Billiton underwent a demerger, dividing into two companies: BHP Billiton and South32. TEMCO became part of South32.

I have been at TEMCO since 1989. I have been Finance Lead at TEMCO since May 2015. Previously, I have served as General Manger and Finance Manager of TEMCO. As General Manager, I was responsible for running the plant, and as Finance Manager, I was responsible for the accounting, costing, risk management, procurement, and IT functions.

In my testimony today, I'll first say a few words about our operations prior to 2012 and then explain why 2012 was an unusual year for TEMCO and BHP Billiton's silicomanganese operations generally. I'll then talk about TEMCO's current operations in Australia, and close with a few remarks about TEMCO's plans for the future.

For many years prior to 2012, BHP Billiton was a significant, steady supplier of silicomanganese to the U.S. market. For most of its history, BHP Billiton has supplied the U.S. market from refining facilities in Australia and South Africa. The facilities in Australia were those of TEMCO, while the facilities in South Africa were those of Samancor Manganese (Proprietary) Limited, which I'll call "Samancor Manganese." Samancor Manganese is owned by the same South 32/Anglo American joint venture as TEMCO, and like TEMCO was owned before the demerger by the BHP Billiton/Anglo American joint venture. In 2012 and previous years, BHP Billiton distributed silicomanganese from both these facilities to the United States.

BHP Billiton coordinated the sales and shipments from the two sites and maintained relatively steady overall import volumes and U.S. market share. For example, 2011 – the calendar year immediately prior to the start of the period of investigation in this proceeding – BHP Billiton exported a total of approximately 140,000 short tons of silicomanganese to the United States from Australia and South Africa. We estimate that this represented approximately 32% percent of the U.S. market. In each subsequent year during the period of investigation BHP Billiton's *combined* imports from Australia and South Africa declined. By 2014, these import and market share figures for South Africa and Australia combined were half what they had been in 2011.

Due to two major events, 2012 was a misleading base year for measuring the impact of BHP Billiton's silicomanganese sales to the United States. These events are, <u>first and foremost</u>,

the permanent closure of the Samancor Manganese silicomanganese facility in South Africa, and second, the temporary closure of the TEMCO facility in Australia.

In February 2012, Samancor Manganese in South Africa stopped producing silicomanganese, and subsequently the Samancor Manganese facility used to produce silicomanganese in South Africa, called South Plant, was demolished.

Samancor does not produce silicomanganese at its remaining facilities in South Africa. Instead those facilities have been designed and built to be able to produce ferromanganese and medium carbon manganese alloys. For this purpose, Samancor Manganese uses large furnaces, which are not well suited to silicomanganese production.

In addition to the closure in South Africa, a second event seriously impacted BHP Billiton's participation in the U.S. market in 2012 -- that's the temporary closure of TEMCO's operations from February to June 2012. This 4-month closure was due in part to an erosion of TEMCO's international competitiveness due to a steady increase in its input costs, including electricity. TEMCO used the temporary shutdown to engage with stakeholders to reduce operating costs, including entering into a revised electricity contract. Through this effort, we were once again able to produce silicomanganese with a competitive cost structure. Production of silicomanganese restarted in June of 2012, but the facility did not ramp up to full capacity until August of 2012.

Because of these closures, BHP Billiton's exports of silicomanganese to the United States plummeted in 2012. In particular, exports from Australia in 2012 were less than 60% of the level that they had been in 2011, and Australia's share of the U.S. market declined by a similar amount.

These closures contributed to a short-term spike in silicomanganese prices – this was primarily a market reaction to the shuttering of BHP Billiton's silicomanganese production in South Africa. As industry reports noted in April 2012, these plant closures affected silicomanganese prices worldwide, and particularly in the United States. The United States had previously imposed antidumping duties against a number of large silicomanganese suppliers and domestic producers have always made up a small share of the U.S. market. Due to these two factors, U.S. customers were more dependent on South African and Australian imports than customers in other countries. The closure of the Australian and South African facilities, therefore, had a greater impact on 2012 prices in the U.S. than elsewhere. In the sunset review conducted in 2012 regarding silicomanganese from Brazil, China, and Ukraine, it is my understanding that Felman itself told the Commission that the South Africa closure caused prices to briefly increase to 72 cents per pound before returning to normal.

These unusual events took place right at the beginning of the Commission's period of investigation. That means the Commission's import volume numbers for Australia begin the POI at an artificially low level. And prices began the POI at an artificially high levels. Seen in isolation, the trends between January 2012 and December of 2014 do not tell an accurate story about what is going on in the U.S. silicomanganese market.

Let me turn now to TEMCO's operations in 2013 and 2014.

Following the closure of the facility in South Africa, with the exception of a period when we were obliged to acquire product from third parties in order to meet our contractual commitments, BHP Billiton (now South32) has continued to serve U.S. silicomanganese customers exclusively from Australia. As a result, exports from Australia increased from 2012 to 2013 and declined from 2013 to 2014 – but with an overall increase from 2012 to 2014.

However, the combined exports to the United States by BHP Billiton (now South32) have never recovered to reach the total volume of the combined exports from Australia and South Africa prior to the period of investigation. Nor are they anticipated to do so in the foreseeable future.

The increase in Australian exports between 2012 and 2014 should properly be characterized as a partial offset of the loss of BHP Billiton's volume from South Africa. In this sense, BHP Billiton did not take sales volume away from the domestic industry; it merely sought to maintain a portion of its existing U.S. sales, by filling orders for its U.S. customers with silicomanganese from Australia rather than South Africa. In fact, because imports from TEMCO never reached the level of pre-2012 imports from TEMCO and Samancor Manganese combined, domestic producers had an opportunity to increase their sales and market share at BHP Billiton's expense.

At this point, I'd like to take a moment to discuss our current operations in Australia. There are four furnaces at the TEMCO facility. Our furnace configuration in Australia is two furnaces producing ferromanganese and two furnaces producing silicomanganese. For technical reasons described in our confidential questionnaire response, this is the optimal configuration for the facility.

Petitioners claim that TEMCO could potentially convert additional furnaces to produce silicomanganese, and that therefore our ***potential*** production capacity represents a significant percentage of U.S. apparent consumption. Whilst it is technically possible to increase the number of furnaces producing silicomanganese, the scenario laid out by petitioners is pure speculation. A shift away from our two-and-two configuration would be far less efficient for TEMCO's overall operations, and, as discussed in greater detail in our confidential questionnaire response, such a

conversion would come with significant costs and with ongoing high unit costs of silicomanganese production.

With the two furnaces that currently produce ferromanganese, the facility has the choice between creating 1 ton of silicomanganese or creating 1.63 tons of ferromanganese. In short, there are volume losses as well as costs that would result from this shift. Thus, we have no plans to convert additional TEMCO furnaces to silicomanganese in the foreseeable future.

Finally, a brief note about inventory levels. TEMCO's September 2014 inventories were artificially low for two reasons. First, shipments were unusually high in September 2014. Second, a crusher had been out of operation so that TEMCO's stocks of uncrushed material, which is treated as work in progress, were unusually high. There was some recovery of inventories in the remainder of 2014. Inventory levels at end of 2015 were somewhat higher than normal as TEMCO had been experiencing trouble-free production together with somewhat depressed demand. The fact that TEMCO has held this production as inventory – as opposed to flooding the market with it – shows that TEMCO is a responsible global player.

So what are TEMCO's plans for the future? First, TEMCO has no plans to expand capacity. While TEMCO always seeks to improve operating efficiencies, it has no plans to make the kind of major investments, such as adding furnaces or other capital equipment, which would be required to significantly increase its existing production capacity. To put this in context, the last significant change in production capacity at TEMCO was the commissioning of the fourth furnace back in 1977.

Second and with respect to TECMO's ability to imminently increase exports to the United States, for most of the POI, TEMCO was running "flat out" with no excess capacity through the end of 2015. Late in December, TEMCO experienced a transformer failure that shut

down one of its two silicomanganese furnaces. Because global steel demand, and by extension global demand for silicomanganese, is currently low, TEMCO has made the decision not to bring the furnace back on line until demand conditions improve. This is not the behavior of a company focused on producing and selling as much silicomanganese as it can, whatever the price.

Two additional facts may be relevant to the Commission. First, neither TEMCO nor any of its affiliates in the South32 family of companies holds any silicomanganese inventories in the United States. While inventories at the plant rose in 2015 after months of trouble-free operation, they will decline in 2016 due to the extended closure of one furnace.

Second, as discussed in greater detail in our confidential questionnaire response, market trends led TEMCO to project that its exports to the United States would decrease slightly in 2015 and 2016. Indeed TEMCO's estimates in the questionnaire, which were based on a forecast prepared in the ordinary course of business a number of months ago, is likely too high given current demand conditions.

To summarize, BHP Billiton and its successor South32 have been long-term, reliable suppliers of silicomanganese to the U.S. market. Although export volumes from Australia rose in 2013 following the temporary disruptions in 2012, they have only partially replaced our South African exports, and in this sense, have not taken volume or market share away from the domestic industry. In fact, our overall volumes have gone down. There are no plans to expand the TEMCO facility. In short, the world we know, a world in which we have historically competed fairly and will continue to compete fairly, is very different from the picture painted by petitioner. Thank you, and I'd be pleased to answer any questions that you may have.