

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

**In the Matter of**

**SILICOMANGANESE FROM  
AUSTRALIA**

Investigation No. 731-TA-1269 (Final)

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

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Good afternoon. My name is Carl Kylander. Until May 2015, I was Vice President at BHPBilliton Marketing, Inc., which I will call BMI. BMI is a subsidiary of BHP Billiton Ltd. During most of the period of investigation, BMI was responsible for marketing and distribution of BHP Billiton's manganese products in the US. After the May 2015 demerger that resulted in the transfer of BHP Billiton's manganese business to South32, BMI no longer has a role in the manganese business.

At present I serve as a consultant to South32, which operates TEMCO, the sole producer of Australian silicomanganese. South32 also has controlling interest in Samancor AG, or SAMAG, the importer which currently sells silicomanganese from TEMCO in the United States.

During most of the POI I had direct responsibility for marketing manganese ores and alloys in the United States. I worked at BMI from 2001 to 2015, and before 2001, I worked for

predecessor companies to BHP Billiton and other companies in the mining and steel industries. My experience in the manganese business goes back more than 20 years.

I will start today with a few comments on the history of BHP Billiton's involvement in the U.S. silicomanganese market and why that is important when the Commission considers the volume of subject imports. I will then turn to pricing, pointing out several factors that affect silicomanganese pricing in the U.S. market and others that do not.

BHP Billiton and its predecessor companies have been selling silicomanganese in the U.S. market since at least 1995. As explained by Mr. Tidey, until 2012, this silicomanganese was sourced from the TEMCO plant in Australia as well as BHP Billiton's silicomanganese facility in South Africa.

While both facilities were operational, the contracts and contract terms for sales outside the home markets of those facilities were centrally coordinated through BHP Billiton by SAMAG, which arranged export sales for both plants. BHP Billiton used an organizational structure where it sourced product for customers from different locations based on various considerations, such as logistics.

You have heard from Mr. Tidey already that, in 2012, BHP Billiton stopped producing silicomanganese at the plant in South Africa and the TEMCO plant experienced a four-month shutdown. The overall level of BHP Billiton's exports to the US declined significantly from their level in 2011 and prior years. During that time, we used available inventories sourced from BHP Billiton's facilities in both Australia and South Africa to meet our commitments under existing contracts with US customers. In addition, we sourced some third party material to satisfy those contracts. We did not enter into any new contracts with US customers until the TEMCO plant came back on line later in 2012. At that point, we did begin making new sales in

the U.S. of TEMCO material , but we never achieved the volume of U.S. sales that BMI had in 2011 or previously.

Let me turn now to several points about silicomanganese sales. I will speak to the types of silicomanganese in the market. I will then turn to the way price information is transmitted in the market. Lastly, I will also discuss non-price considerations.

Steel mills use silicomanganese primarily for its manganese content, and to a lesser extent, silicon. In this investigation, there are two types of silicomanganese under consideration by the Commission. The first is what the Staff Report calls “standard grade” silicomanganese, which has a manganese content of between 65 and 68 percent. The second type is what the Staff Report calls “high grade” silicomanganese, which has a manganese content of 72 percent. There is actually a third type of silicomanganese that exists, called “low carbon” silicomanganese, but all parties agree that it is outside the scope of this investigation.

TEMCO produces 65 percent silicomanganese, as do Felman and Eramet. The principal source of the 72 percent product is Felman’s affiliate in the Republic of Georgia, which produced both 65 percent and 72 percent silicomanganese during the POI.

Felman argues that 72 percent silicomanganese is essentially a different product and that the Commission should pay no attention to the volumes and prices at which it is sold by Felman Trading in the U.S. market. In my experience, however, most of our customers in the United States are able to purchase and use either 65 or 72 percent silicomanganese. During my time at BMI, the market has seen significant growth of imports of 72 percent silicomanganese from Georgia. 72 percent silicomanganese has all been sold to steel mills which previously used 65 percent silicomanganese. I see these two products as competing directly with each other in the U.S. steel market.

It is true, as Felman suggests, that 72 percent silicomanganese typically sells at a higher price per pound than 65 percent silicomanganese. But the price difference between 65 percent and 72 percent silicomanganese is a function of their manganese content. Silicomanganese is priced by the pound. When purchasing 72 percent silicomanganese, the purchaser is getting more manganese per pound. But if you adjust for the manganese level so you are comparing prices for the same amount of contained manganese, there is no premium for the 72 percent product.

Because 65 percent and 72 percent silicomanganese sell at equivalent prices on a manganese-content basis and can be used by most steel mills interchangeably, they compete in the same market based on price and reliability. For this reason, the Commission should pay very close attention to the volume and pricing of non-subject 72 percent silicomanganese from Georgia.

Next, I'd like to discuss the role and function of price indices in the U.S. market. Felman argues that our prices are reflected in indices like Platt's and Ryan's Notes that are used throughout the industry to set contract prices. According to Felman, they are injured because they set their contract prices based on these indices, and we have caused the prices in these indices to be lowered. This argument is fundamentally flawed.

Let me first explain how Platt's and Ryan's Notes prices are set. Ryan's Notes prices are set twice a week, based on a survey of consumers, traders, and producers regarding the previous days' sales to end users on the spot market. Platt's is set in a similar manner.

In the preliminary phase, Felman argued that prices for Australian silicomanganese were being reported in these indices and driving contract prices down. For this reason, the Commission's questionnaires in the final phase collected detailed information about what prices

are reported to the indices. As described in more detail in the confidential response to our questionnaire, the vast majority of BHP Billiton's and now South32's US business is through long-term contracts with formula prices linked to the indices, not one-off spot-sales. In addition our contracts are mostly with distributors -- not end users -- and these contracts with distributors are likewise not a part of the Platt's or Ryan's Notes pricing. For these reasons, it is now clear that BHP Billiton's sales of subject imports to U.S. customers do not have any direct effect whatsoever on Ryan's Notes or Platt's prices.

In its prehearing brief, Felman has raised a new argument - that the index prices are driven by non-subject sellers who feel pressure to cut prices based on the average unit values of Australian imports. This new theory does not match my experience, nor do I think it makes much sense. First, purchasers and sellers in this market do not examine AUVs when negotiating prices. Discussions of pricing focus almost exclusively on the numbers reported in indices like Ryan's Notes and Platts. Second, the market's focus on price indices rather than AUVs makes sense. AUVs reported at the time of import constitute a best guess for a future sales price. Similarly, a potential buyer or seller consulting AUVs for market information may be looking at values that were created and reported many months prior. By contrast, numbers reported in Ryan's Notes and Platt's represent a current snapshot of actual sales values in the market. AUVs simply have very little informational value to parties attempting to negotiate a purchase. And, as a result, AUVs do not play any significant role in pricing or purchasing decisions made by players in the market. Felman's theory that Australian AUVs drove down the price of non-subject sales reported to major indices during the POI is creative, but without a basis in reality.

I'd like to turn to the role of non-price considerations. In my experience, price is an important factor in purchasing decisions made by customers, but not the only factor. Our

ultimate customers are steel mills that rely on a significant and consistent supply of silicomanganese to keep their steel production operational. Given the just-in-time inventory requirements of steel producers, steel plants highly value suppliers that they can rely on. That's why most purchasers largely rely on one-year or even longer-term contracts for their silicomanganese, from suppliers whom they trust. There's this old saying in purchasing circles - if you pay too much for the product, you're in trouble with your boss. If you run out, you get fired.

Steady supply is of particular importance given the context of the silicomanganese market in the United States. Many of the largest global producers of silicomanganese are already subject to antidumping orders, and do not participate in the market. As a result, as we saw in 2012, a single company's decisions can create widespread concerns about reliability of supply.

Let me now turn to trends that we observed during the period of investigation. As the Commission has likely already taken note, U.S. prices for silicomanganese at the beginning of the period of investigation were relatively higher than they are now. There was a short-lived spike in prices in early 2012, and the price of silicomanganese has fluctuated since then, ultimately declining to its current levels. As my colleague described (and as the ITC staff noted in the pre-hearing report), this price spike was a primarily a market reaction to the shuttering of BHP Billiton's silicomanganese production in South Africa, which was the largest source of silicomanganese sold by the company into the United States. It was also affected by the temporary closure of the TEMCO plant in Australia that followed shortly afterwards.

I might even call it a market overreaction. After the initial price spike in early 2012, prices trended back towards normal from May 2012 through the rest of the year. TEMCO re-

started production in June 2012, in the midst of this price decline, and began shipping this new production sometime afterwards.

Because the primary use for silicomanganese is in steel production, prices in the market generally track the demand for long product steel very closely. That is what happened during the POI, except for the price spike in early 2012. Demand for silicomanganese declined overall between 2012 and 2014, and has experienced an even sharper decline in interim 2015. As a result, there is simply less demand for our product currently, and the price we receive has taken a hit.

I'd like to conclude by summarizing the role of our silicomanganese in the U.S. market. Petitioners would have you believe that BHP Billiton were a Johnny-come-lately who was buying their way into the US market, but nothing could be further from the truth. Australian SiMn sales can only be construed as damaging to the domestic industry if we focus on the silicomanganese units being brought in from Australia, but we pretend not to see the decline in BHP Billiton's imports from South Africa. During the POI BHP Billiton's total market share and total sales of SiMn in the US actually declined, they did not increase. BHP Billiton have been a long term, reliable partner providing SiMn to the US steel industry since well before Felman existed as a company (2006). If given the opportunity, South32 intends to be every bit as reliable a partner as BHP Billiton was, now that it has assumed responsibility for Australia's SiMn production. Thank you for your time and I will be happy to answer any questions you may have later.

