Testimony of Mike Arena
Silgan Containers

Good morning (afternoon). My name is Mike Arena and I am the General Manager for Strategic Sourcing for Silgan Containers. I have been with Silgan for 10 years, five of which has been spent purchasing tin mill steel. Silgan is the largest producer of food cans in the United States. Silgan and its sister companies have 31 can and closure making facilities located around the United States, employing 3500 American workers in our plants, 65 percent of whom are unionized.

As the largest can maker, Silgan is also the largest U.S. purchaser of tin mill steel. Every year Silgan purchases around a million tons of tin mill steel, which is probably about half of all steel consumed in the U.S. for food cans.

I want to start my testimony today by addressing a simple question: Why am I here? My friends at the domestic mills want you to believe that I have come all the way to Washington so that I can purchase large quantities of tin mill steel from Japan. That is simply not true. I can state rather unequivocally that even if the AD order is terminated, Silgan will not purchase large quantities of Japanese steel. I will address why in a minute. And so why am I here.

I have come to Washington because I believe that it is critical that the Commission have a complete understanding of the competitive dynamics for buying tin mill steel in the U.S. market. Why? Quite frankly, the Commission needs to hear from large customers like Silgan to achieve this understanding.

I have been told the Commission is trying to determine whether, if the AD order is terminated, the Japanese mills will ship large quantities of tin mill steel that will harm the U.S. mills. The answer to this question is no. And the reason is simple: Silgan has no intention of buying large quantities of the Japanese tin mill steel that has been subject to the AD case and, as importantly, it is unlikely that the Japanese mills will sell large quantities of tin mill steel to the U.S. market. Both of these answers are based on my actual experience.

Let me first address Silgan's actual purchasing practice. Silgan has always purchased the overwhelming majority of its needs -- well over 90 percent -- from domestic mills and Dofasco. Or stated differently, Silgan has rarely purchased more than 6 – 7 percent of its needs from off-shore suppliers -- suppliers from outside North America. I know this to be true for the five years that I have been in charge of buying tin mill steel for Silgan and my understanding is that it was also true for years before I took over.

We structure our purchases this way by design. Silgan purposefully limits the types and quantities of tin mill steel that we will source from off-shore suppliers. The reason is a combination of small order volume and change-order flexibility.

As I believe you know well from the supermarket aisles, tin cans come in a variety of types, shapes and sizes. And when you add the different types of tops – how the can opens -- you end up with quite a few tin mill steel specifications that we require to meet our needs. Indeed, most years we will purchase 400 different specifications of tin mill steel. As you can imagine, with so many different specifications, the total tons for some of these specifications can be rather small. It is generally difficult to get an off-shore mill to agree to smaller volumes.

As importantly, we have a critical need for changing our steel orders on short notice. A huge part of our business is supplying food cans, cans for fruit and vegetables. As you can imagine, in any given year, the quantity of the harvest can change dramatically. One year may be a higher than usual volume year for peaches, but a lower than usual volume for tomatoes. Such differences require difference in the types of cans we need to supply to the food companies, which, in turn, requires different types of steel to make the different cans.

And so, in our business, as a can maker, we must have the flexibility to call steel suppliers and say, for example, the harvest is different than we expected and therefore we need to double the quantity of one spec, but cut another spec by one-third. The combination of smaller orders and frequent changes means that we need more flexibility.

Such flexibility is not available with any off-shore supplier. With off-shore suppliers, by the time we would make this sort of call, the steel could already be on a boat headed for the U.S. and we would be forced to take delivery of material we no longer need.

We simply cannot take this risk of having the wrong steel at the wrong time. Therefore, we chose carefully any specifications that we will purchase from off-shore suppliers. It is for precisely this reason that the overwhelming majority of steel specifications are essentially dedicated to domestic mills. In fact, in a typical year Silgan will buy over 400 different specifications of tin mill steel, but only a handful, will come from off-shore suppliers. That is why more than 90 percent of our steel ends up coming from the North American suppliers who can react quickly to our changing needs.

Although this market dynamic is not new, there seems to be some confusion that I would like to clear up. Six years ago my predecessor, Bob Owen, came before the Commission and tried to explain this real-world constraint that we – and I strongly suspect other can companies – face in making our procurement strategy. However, in addressing this point, the Commission's 2006 report made the following statement: {open quote} "There is no suggestion in the record that Japanese tin mill steel is no longer of high quality or no longer substitutable for the domestic like product. Accordingly, we reject respondents' assertion that there is a practical limit on the likely volume of subject imports." {close quote) That quote is from page 20 of the report.)

Commissioners, my predecessor, clearly failed in his explanation. The real-world market dynamic I am talking about has nothing to do with the <u>ability</u> of the Japanese to make tin mill steel. Rather, it has to do with Silgan's economic <u>incentives</u> for sourcing from domestic suppliers, and turning to off-shore suppliers for only a small part of our needs. Because of the constantly changing requirements imposed on us by the food companies, Silgan has a very real economic incentive to limit the types of steel sourced from off-shore suppliers. Consequently, this is all about the economic incentives facing can companies like Silgan, not whether the Japanese can make the product. For the past 5 years we have averaged 6 – 7 percent of our needs from off-shore suppliers. That constraint limits our sourcing of imports. And that constraint will also limit any future import from Japan. And this is the primary reason -- foreign steel has simply too far to travel and too long a lead time in a U.S. market that requires flexibility.

I next want to address why I do not believe that the Japanese will sell large quantities of tin mill steel to the United States, regardless of what Silgan or other can companies might wish. Over the past couple of years, because of dramatic changes in how steelmaking raw materials, such as iron ore and coke, are sold on global markets, the Japanese mills have become very hesitant to committing to long term contracts to sell tin mill steel in the United States. I know this because I have experienced this reluctance first hand.

As you know, there are some tin mills steel products that are excluded from the AD order because the domestic mills do not make them. And over the years Silgan has purchased some of the excluded products from the Japanese mills and some from European mills.

About a year ago, I approached the Japanese mills about increasing our purchases of one of the excluded products. Our company expected increased demand for the type of can that needs this steel and so I requested a meeting with the Japanese mills. Indeed, this opportunity was important enough for our company that we arranged a high level Silgan delegation to visit Japan. …our President, two Senior Vice Presidents and three General Mangers.

We met with both Nippon Steel and JFE Steel. During our conversations we made it clear that not only did we want to secure a certain quantity for the upcoming year, but also that we thought that there was a good prospect that demand for this product would grow appreciably. However, the Japanese did not bite at all. Indeed, we did not even get a formal response for a price quotation for the small quantity we desired for the upcoming year.

In follow-up conversations, I learned that the Japanese mills are very reluctant to commit to any long term contracts, now that they are forced to purchase raw materials on a quarterly basis. The Japanese mills simply do not want to incur the risk that raw material prices may increase significantly while they are stuck with a fixed sales price for a year.

It is my view that raw materiality volatility is ingrained in the risk profile of all Asian steel mills. And it is my further view that the annual contract in the U.S. market will not disappear anytime soon. At least it will not disappear any time soon for Silgan. Given that the long-term contracts that we have with our customers require fixed annual prices for our cans, we must insist on fixed annual prices for the tin mill steel that we purchase to make the cans.

However, quite honestly, my belief that the Japanese mills will be reluctant to ship large volumes to the United States is not only about annual contracts. It is also about how the Japanese now approach new business. My friends in the domestic mills are trying their best to give the impression that the Japanese mills are rapacious entities who will sell at any price to get the sale. Commissioners, this is not true. And I know this firsthand.

Please understand that Silgan has manufacturing facilities outside the United States; indeed, we have 23 can making and closure production facilities in other parts of the world, including Asia. Accordingly, we – that is, Silgan's outside the U.S. facilities-- regularly obtain price quotes for tin mill steel from the Japanese. And I can tell you unequivocally the price quotes from the Japanese are among the highest compared to all other suppliers. And this has been consistently true over the past five years.

Our production facilities outside the United States also provide additional evidence of the Japanese approach to the U.S. market. If the Japanese were willing, we could easily buy Japanese tin mill steel outside the United States, manufacture can ends, and then ship those can ends to our facilities in the United States.

And so, if the Japanese were truly sell-at-any-price as the domestics would have you believe, why hasn't this happened? This volume is not small potatoes. Silgan's U.S. business needs 200,000 tons of can ends. And so I ask again, why hasn't this happened? The answer is that the Japanese are **not** interested. The Japanese are not interested in selling tin mill steel to Silgan's outside US operations at a price that would make this work. Indeed, even though it is common knowledge that other U.S. can companies are importing can ends, the Japanese have never even approached us about doing this. To me, this speaks directly to the Japanese approach to selling tin mill steel to the U.S. market.

And now, I am quite sure that you are really asking, why am I here. If my company has real-world economic constraints on buying large volumes from off shore suppliers, and the Japanese will most likely refuse to sell larger quantities pursuant to an annual contract for the U.S. market, why am I here? Why did I come all the way to Washington from California?

Because in my job, I need to worry about the future. I am not appearing here because I want to harm the U.S. mills. That is preposterous. As I have explained, Silgan needs the U.S. mills. And we need them to be good, efficient, competent suppliers. My very livelihood depends on this. And so, the last thing we want to do is to harm the U.S. mills. Silgan desperately needs the U.S. mills to be world class, to supply products that allow us to compete in the global marketplace vs. imports and the ever increasing threats from alternative packaging.

No, the reason I am here is when the U.S. mills cannot supply my needs, or there is a problem with supply, we can have the option of purchasing Japanese tin mill steel. Forgive me if my next minute is a bit technical, but it is important that you understand that there are circumstances from time to time when foreign steel is essential to our supplying our customers and being competitive.

There are definitely some tin mill steel subject to the AD case that the U.S. mills cannot supply. Wide *tin free* steel is an example. Prior to the AD case, Silgan had purchased 42 inch wide tin free steel from Japan for use in making what we call 603 ends -- the tops and bottoms of institutional restaurant sized cans. We did this because some of our production lines have equipment designed to run 42 inch wide coils, allowing us to stamp seven end per press. No U.S. mill can provide 42 inch tin free steel. For tin free steel, given the physical limitation of the plant, U.S. mills can only provide 38 inch tin free steel.

And so, if we had to purchase only U.S. mills narrower coils, we would lose 16 percent of our can-end making output. Such loss of productivity would affect both our costs and our capacity.

And it is for this reason, that when the AD case kicked out the Japanese, Silgan did not switch to narrower U.S. coils, rather we simply began importing wider coils from Europe and Canada instead of Japan. And then our European supplier completely stopped producing wide tin free steel and so we were left with only a single Canadian supplier. And so, what we want is to more than just one option for purchasing wider tin free steel and a few other specs that are subject to the AD order but which are either difficult or impossible to get from the U.S. mills.

And we want the option to turn to the Japanese when other events make supply from other sources difficult. More specifically, we need options among off-shore suppliers. There are relatively few steel suppliers around the world that can produce the quality of tin mill steel that Silgan demands. Rasselstein in Germany is one of these. However, about three years ago, Rasselstein essentially made the decision to get out of the U.S. market, and so we lost a valuable supplier. Given that Japanese mills can more easily substitute for European mills than they can for U.S. mills, I view the Japanese as potential substitute for Rasselstein.

This leads me to my final point. Honestly, if the US mills could supply *all* of our needs in a manner that ensures our global competitiveness, , we would be comfortable if US mills had 100 percent of our business. But because this has not yet happened, than I think that Silgan is justified in its use of import steel sources in the limited fashion that we do.

I might note that we have no assurances from any of the US steel mills that they will make the investments necessary to further compete in the global tin plate steel market, or, more dramatically, that they intend to stay in the tin plate business beyond any contractual commitments.

And so, that is why I have come to Washington. The truth of the matter is that, even if the AD order is terminated, Silgan has no intention or incentive to purchase large quantities of tin mill steel from the Japanese.

I know this from my own experience.

I am sure you will have questions for me, and I look forward to addressing them.