

BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

Steel Concrete Reinforcing Bar from)
Belarus, China, Indonesia, Latvia,) Inv. Nos. 731-TA-873-875,
Moldova, Poland and Ukraine) 877-880, and 882 (Second Review)

**Testimony of Alex Zaharin
Vice Chairman of The Council,
JSC Liepajas Metalurgs**

1. Good afternoon Mr. Chairman and members of the Commission. My name is Alex Zaharin. I am currently Vice Chairman of the Council with JSC Liepajas Metalurgs (“LM”). I have been with LM for nine years. As some of you may recall, I testified before the Commission during the last sunset review in 2007. I appreciate the opportunity to be here again today to explain to you why I believe that revocation of the antidumping duty order on rebar from Latvia would not injure the U.S. domestic rebar industry.

2. When I testified before you in 2007, I explained that, with Latvia having then recently joined the EU, LM had made the strategic decision to exit the U.S. market and to instead focus on our natural markets in the EU. The reason had nothing to do with the antidumping duty order, as our dumping margin was

quite low. Rather, we decided to exit the market because the economics no longer made sense. The same underlying economics caused us to exit the Canadian market at around the same time, and we have not resumed exports to Canada despite the fact that the antidumping duty order in Canada was lifted in 2005. These basic economics mean that we are simply not competitive in the U.S. market, and these conditions are not likely to change in the foreseeable future. I would like to discuss these underlying economics that render us uncompetitive in some detail.

3. Freight Costs. The domestic industry has made some rather extraordinary claims regarding ocean freight costs. The fact is that for the quantities that LM typically is able to sell – 10,000 to 15,000 metric tons – the freight cost from Latvia to the U.S. gulf coast (including discharge fees) is approximately \$80 per metric ton (or just under \$73 per short ton). By way of comparison, when we sell to Algeria, our primary overseas export market, the cost is \$50-55 per metric ton (\$45-\$50 per short ton). Truck freight to our primary EU market, Poland, is typically on the order of 20 euros per metric ton, which works out to about \$23.50 per short ton at today's exchange rates. These are significant cost differences.

4. Credit Terms. The lag time from customer order to when we can deliver to the United States is at least 75 days. We cannot finance this period.

Therefore, to sell in the U.S. market, we would need to deal either on a cash-in-advance basis, or require letter of credit financing or some other form of bank guarantee. This makes us uncompetitive with U.S. domestic mills, who are located much closer to the market and can offer shorter delivery times and better credit terms.

5. Product Differences. I heard this morning from the domestic industry witnesses that rebar is the “ultimate commodity product” and that all rebar is 100 percent interchangeable. This is not correct. LM currently uses the Thermex production process. Our product is not produced to ASTM specifications, and is not interchangeable with air cooled rebar produced to ASTM specifications. My colleague, Kirils Polovenko, will discuss the differences between the Thermex process and the air cooled process required for us to produce ASTM rebar in more detail. What is important to understand, however, is that our U.S. customers will not accept Thermex rebar. To be clear, LM has the technical capacity to produce air cooled ASTM rebar. We produced it in the past when did sell to the U.S. market, and we could do so again. However, to do so, we would need to modify our current production process. This would increase our costs, as the air-cooled ASTM process is more expensive, and would also create inefficiencies as we shifted back and forth between the air-cooled process for customers in the U.S. market and the Thermex process for everyone else. Once again, the economics

make little sense to us, particularly since we are currently able to operate at full capacity by producing Thermex rebar, which we can sell to the EU and in our other primary markets.

6. Taken collectively, these competitive factors have led us to conclude that it does not make sense for LM to try to compete in the U.S. market against the very efficient and highly competitive domestic U.S. rebar producers. However “attractive” the U.S. market may be in the abstract, we need to consider these economic factors. And these factors are not unique to LM. There are many major producers of rebar in the EU who are not controlled by Arcelor Mittal or Commercial Metals, and who are not under any antidumping duty order. The U.S. import statistics confirm that several European suppliers exited the U.S. market in 2004, and most of the remaining producers had exited by 2006. These figures are provided in the Exhibit that we have provided with my testimony. Despite the relatively depressed state of the construction market in EU over the past four years, none of these EU countries have exported more than minicule quantities of rebar to the United States during the last five years.

7. Rather than export to the United States, over the past five years LM has found it more profitable to focus on its natural markets in the EU, Russia’s Baltic coast, and Algeria, where we benefit from a free trade agreement. We enjoy significant competitive advantages in each of these markets.

8. EU. As a member of the EU, we enjoy a zero tariff within the EU. In addition, the truck freight rates from Latvia to Poland are particularly advantageous. There is very substantial inbound trade from Poland to Latvia in a whole range of products and commodities, but considerably less outbound trade. This means that in order to avoid having trucks making the return trip empty, trucking companies offer favorable rates on transportation from Latvia to Poland. As a consequence, our freight rates to Poland are often more favorable than the freight rates for Polish mills shipping to many locations within Poland.

9. Russia. Latvia's geography is ideally suited to supplying to Baltic coastal regions of Russia, including St. Petersburg and the area around Kaliningrad, on the Baltic coast between Lithuania and Poland. Even as Russian domestic production of rebar increases, we will continue to enjoy a significant geographical advantage in supplying these areas. In addition, freight tariffs in Russia have declined following Russia's accession to the WTO. Furthermore, demand in Russia is booming, led by construction for the 2014 winter Olympics and the 2018 World Cup.

10. Algeria. As I mentioned, the EU has a free trade agreement with Algeria. As result of this agreement, EU producers such as LM enjoy a 15 percent tariff preference compared to non-EU suppliers, including Turkey. Algeria

continues to be a strong market for LM. Algeria represents over 90 percent of LM's non-EU sales.

11. Before concluding my testimony I would like to address briefly two issues concerning LM that have been raised by the domestic industry – LM's current financial situation, and the VAT fraud investigation in Poland. Much of the testimony you heard this morning on these points is inaccurate and, in some cases, scurrilous. I appreciate the opportunity to set the record straight.

12. First, on LM's financial situation. As has been widely reported, LM has recently taken some temporary curtailments of its rebar production. The reason for these curtailments has been a liquidity problem caused by the high cost of electricity and the size of our short term credit facility. LM currently faces the highest electricity costs in Europe, in large part as the result of an excise tax levied by the Latvian government to fund energy infrastructure and "green energy" projects. LM is currently in negotiations with the government to try to have this tax adjusted. LM is also negotiating with its financial institutions to increase its short term lines of credit to increase our working capital. I want to stress that the issue has been financial liquidity, and not our order book, which remains strong. Simply put, we need to have the cash to pay our scrap suppliers and to pay our electricity bill, and we have used these temporary curtailments as a means of addressing our short-term liquidity situation.

13. VAT. It has been known for some time that there is a widespread problem in Poland and other recent entrants to the EU with regard to VAT fraud. As I understand it, this involves both companies in Poland claiming VAT refunds on goods that are reported to the Polish authorities as exports, but that never leave Poland, as well as companies charging VAT on sales within Poland and then failing to remit the taxes to the Polish government.

14. I would like to make three important points concerning this VAT fraud issue. First, this is not an issue about LM, or even about Latvia. It is an issue about Poland. Indeed, I was personally told by an executive of CMC-Poland that CMC became concerned about this problem when they discovered that their own rebar was being reported to the Polish authorities as exported, and thus exempt from VAT, but was then making its way back into Poland and being sold domestically.

15. Second, I can state categorically that LM is not involved in any way in these VAT fraud schemes, and there has been no finding from any competent authority that LM is implicated. LM, like every producer in the EU, is subject to zero VAT when shipping to Poland or to any other export destination. LM's sales to Poland are all made to unaffiliated customers, and it is the responsibility of the importer in Poland to collect the VAT on its re-sale and to remit the proceeds to the Polish government. LM complies with all record-keeping requirements with

respect to its sales and its customers in Poland. LM has been cooperating with other European producers through Eurofer and with the Latvian tax authorities in their investigations of this matter, and LM has been given a letter from the tax authorities in Latvia confirming that it has found no evidence of fraud by LM. We will be submitting that letter for the record.

16. Third, LM's business in Poland has not been affected by this issue. LM has had significant sales in Poland for many years, and Poland remains one of our strongest export markets today. Thus, the suggestion that this VAT investigation will somehow cause LM to lose its business in Poland is simply false.

17. This concludes my prepared testimony, and I will be happy to answer any questions.

Steel Concrete Reinforcing Bar (Carbon) from All Countries

U.S. Imports for Consumption -- Volume in Short Tons

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Argentina	0	0	0	3,364	12,934	24,285	0	17,290	336	19,417	0	0	0	0	0
Australia	0	0	0	0	50	0	309	195	473	568	141	120	144	303	234
Austria	33	37,964	4,646	8	45	0	4	0	0	0	0	0	0	0	0
Belarus	8,523	71,438	24,614	0	2,821	0	0	0	0	0	0	0	0	0	0
Belgium	0	0	0	1,006	0	0	0	165	2,751	541	429	0	0	0	0
Brazil	0	71,168	29,580	29,245	97,082	85,630	49,182	127,500	73,575	116,391	13	0	0	0	0
Bulgaria	0	0	0	9,790	16,474	60,049	188,466	54,724	88,466	0	0	0	0	0	0
Canada	754	2,983	1,791	1,615	1,006	252	2,729	29,763	39,942	14,009	496	391	184	28	31
China	0	17,548	163,124	47	21	0	169	61	3	2,385	39	43	31	118	0
Colombia	0	0	0	0	0	0	500	0	0	0	3	0	0	0	0
Costa Rica	0	0	0	0	0	0	5,384	8,528	0	5,589	0	0	0	0	0
Czech Republic	0	0	0	101,979	44,239	0	16,540	0	0	0	0	0	0	0	0
Dominican Rep	0	0	0	7,898	71,710	69,393	104,378	46,007	95,403	76,990	56,286	32,497	32,475	82,315	39,357
Egypt	0	0	0	39,069	67,615	107,377	17,451	0	48,465	4,216	0	0	0	0	0
El Salvador	0	0	1,739	108	0	0	0	0	0	0	0	0	0	0	0
France	0	0	0	15,702	0	0	0	0	0	0	0	0	0	0	0
Germany	265	101	24,276	74,837	91,901	36,575	74,068	95,528	64,896	3,983	4,995	1,700	2,869	4,501	3,805
Haiti	0	0	0	0	0	0	0	0	0	18	0	0	0	0	0
Hong Kong	0	0	0	0	0	0	0	2,761	36,300	32,892	0	0	0	0	0
India	0	0	0	0	828	30,614	46	164	514	594	163	0	43	0	0
Indonesia	44,504	69,261	0	0	0	0	0	0	0	0	0	0	0	0	0
Italy	0	0	7,752	122,284	16,364	0	11,638	158	0	77	0	26	63	219	0
Japan	66,341	231,985	25,355	386,530	269,575	36,731	195,302	166,048	222,150	157,049	166,276	10	0	0	23
Korea	527,080	423,893	263,602	118,469	0	0	0	5,516	0	0	0	50	0	0	0
Latvia	97,001	303,997	207,704	33,662	34,858	0	11,047	0	0	0	0	0	0	0	0
Luxembourg	0	0	0	15,281	0	0	4,421	0	2,280	387	966	60	0	0	0
Malaysia	0	0	0	90,618	20,953	0	0	14	29,929	102,860	0	0	0	0	0
Mexico	83,321	107,301	46,993	193,249	161,806	253,027	254,341	251,349	170,452	332,939	416,284	203,736	292,015	280,942	291,058
Moldova	187,272	183,803	181,491	0	0	0	0	0	0	0	0	0	0	0	0
Panama	0	0	0	0	0	0	0	41	21	3,215	1,293	0	0	0	0
Paraguay	0	0	0	0	5,288	12,535	10,738	0	0	0	0	0	0	0	0
Peru	0	0	0	0	0	0	0	0	629	0	0	0	0	0	0
Poland	53,231	10,681	69,293	26,884	0	0	7,303	0	129	0	0	0	0	0	0
Romania	4,793	0	4,182	36,635	30,776	70,663	86,991	55,586	33,178	0	0	0	0	0	0
Russia	19,123	48,102	35,378	45,402	26,926	0	7,891	0	16,967	0	0	0	0	0	0
Singapore	0	11,063	0	29,599	0	0	13,209	0	22,438	71,355	0	0	0	0	0
South Africa	5,656	23,271	6,122	4,451	0	0	0	26	0	0	0	0	0	0	0
Spain	11,030	0	29,755	58,432	0	0	10,573	0	0	6,721	0	0	0	0	0
Sweden	0	0	0	0	0	20	0	0	0	0	0	0	0	0	0
Switzerland	1,200	60	21	18	0	112	41	0	30	4,711	829	0	20	78	42
Taiwan	284	343	15,718	10,904	1,058	0	51,678	40,804	300,675	367,636	85	3,691	24	30	37
Thailand	0	0	5,111	3,964	254	698	11,655	86	38,805	53,938	0	0	0	0	0
Trin & Tobago	0	496	11	10,147	0	6,502	8,964	0	0	32	0	0	0	0	0
Turkey	8,510	41,924	179,297	206,539	234,115	122,391	713,690	488,472	1,161,412	452,920	311,067	171,121	167,513	262,412	562,867
Ukraine	3,074	95,903	168,053	0	0	0	0	0	0	0	0	0	0	0	0
United Arab Em	0	202	243	0	0	0	0	0	0	0	0	0	0	0	0
United Kingdom	11,346	337	0	57	79	0	698	212	270	97	2,350	272	47	161	0
Uruguay	0	0	0	0	2,458	15,309	3,567	0	0	0	0	0	0	0	0
Venezuela	22,168	49,730	29,902	53,017	4,274	30,396	17,020	24,715	3,918	0	0	0	0	0	0
Vietnam	0	0	0	0	0	0	0	0	0	0	572	0	0	0	0
Total	1,155,509	1,803,552	1,525,756	1,730,809	1,215,508	962,560	1,879,992	1,415,711	2,454,407	1,831,529	962,286	413,716	495,429	631,108	897,454

Note: Data based on imports under HTS 7214.20.00.

Source: ITC Trade Dataweb