

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

IN THE MATTER OF CARBON AND CERTAIN ALLOY STEEL WIRE ROD FROM BELARUS, ITALY, KOREA, RUSSIA, SOUTH AFRICA, SPAIN, TURKEY, UKRAINE, THE UNITED ARAB EMIRATES, AND THE UNITED KINGDOM	USITC INV. NOS. 701-TA-573—574 AND 731-TA-1349—1358 (PRELIMINARY)
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**TESTIMONY OF KIMBERLY KORBEL
EXECUTIVE DIRECTOR, AMERICAN WIRE PRODUCERS ASSOCIATION**

APRIL 18, 2017

Good morning. My name is Kimberly Korbel and I am the Executive Director of the American Wire Producers Association—the AWWA.

Four members of the AWWA are here today to discuss the domestic wire rod market and their purchasing decisions. Together they purchase more than one million tons of wire rod annually.

The real problem faced by the domestic rod mills is that the total demand for their product has declined as the result of the trade cases, which they have filed. Apparent consumption of wire rod has declined significantly. Countries that can no longer sell wire rod to US wire producers, because of trade cases, continue to produce rod, but that rod ends up in finished wire and wire products coming into the US. We have seen imports of wire and wire products increase from 33.5% of

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TESTIMONY OF **KIMBERLY KORBEL**
EXECUTIVE DIRECTOR, AMERICAN WIRE PRODUCERS ASSOCIATION

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the US market to 70%. So our wire customers buy less wire, and our company members make less wire, which means that they purchase less wire rod, which results in lost sales for the domestic rod industry.

We look forward to responding to your questions at the conclusion of our panel's presentation.

Our first witness is our association President, John T. Johnson.

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TESTIMONY OF JOHN T. JOHNSON, JR.
PRESIDENT, MID-SOUTH WIRE COMPANY
PRESIDENT, AMERICAN WIRE PRODUCERS ASSOCIATION

APRIL 18, 2017

Good morning.

I am John T. Johnson—the owner and President of Mid-South Wire Company in Nashville, Tennessee.

I am also President of the American Wire Producers Association.

Mid-South Wire was founded in 1967 as a family-owned business that draws steel wire rod into wire for a wide variety of wire products. In fact, this week we are celebrating the 50th anniversary of our company. Together with our affiliated sister company—Nashville Wire Products—we employ approximately 1,000 workers in plants located in Tennessee, Alabama, Kentucky, and Missouri.

Mid-South produces wire for the automotive, agricultural, appliance, closet-shelving, material handling, construction reinforcement, and other industries in

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the United States. We also produce galvanized wire for a variety of end uses, such as chain-link fence, nails, chicken coups, garment hangers, and wire handles for paint cans.

Each year, Mid-South purchases about 200,000 tons of wire rod, and during the period covered by these investigations, we sourced the majority of those tons from U.S. rod mills.

I want to emphasize upfront that we rely on the domestic rod industry for much of our raw material. We have a good relationship with them, and we want to continue to work closely with them. However, we cannot survive if we are limited to sourcing only domestic rod.

Like other independent U.S. wire producers, and by that I mean wire companies that are **not** vertically integrated with a rod mill—we are frequently caught in a cost/price squeeze when it comes to our raw material input. Our downstream wire customers are caught in the same squeeze. When rod prices increase, this results in increased wire prices, and wire manufacturers simply cannot continue to pass increasing costs to their customers. Our customers are continually faced with the “import or build” decision—that is, whether to import the finished wire products or continue to purchase wire from us and make their finished products here in the United States. Our customers demand that we be competitive if they are to continue to buy from us and make

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their products here in the U.S. Obviously, we want our customers to continue buying our wire, and this benefits the U.S. rod mills, as well.

Unfortunately, over the past several years, a number of our end-use customers have moved some or all of their production out of the United States. One example of this is the Bar-B-Que grill industry that has virtually disappeared from the U.S. manufacturing landscape. They have gone offshore tied to rising rod and wire prices. If we are held hostage by the domestic rod mills and denied the ability to buy rod in a globally competitive market, our customers will have to consider import options instead of buying from us to meet their needs. As a result, wire rod consumption in the United States will likely continue to decline—hurting both the domestic rod mills and wire producers.

Another point I want to highlight is the fact that we compete in our downstream wire markets with our domestic wire rod suppliers, including all four of the Petitioners in this case. They compete with us in the chain-link fence market, lawn and garden products, in the appliance industry, and on drawn wire, to name just a few. In the event of competing demands for a finite supply of wire rod, we expect that these mills will take care of their internal and related wire operations before they ship to outside customers like Mid-South. In fact, we already are hearing from some U.S. rod mills about

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allocations in the near future, and they tell us that they are either fully booked or getting full. Of course, they aren't calling them allocations—instead they call them “controlled order entry.” We are already experiencing delivery delays on orders that we placed before these cases were filed. Some domestic mills also experienced unplanned outages and other production issues. As I mentioned, we have found that lead times and deliveries from some of the U.S. mills have been irregular and unpredictable.

When we buy imported rod, the transaction price is not the only factor we consider. Quality is also key. Some of our customers request that we provide them with wire drawn from steel produced by certain foreign mills, especially those that use the BOF method of melting steel. According to our customers, the BOF steel works better in their processing operations than some of the domestic scrap-based steel. Some of the advantages of BOF steel include better residuals, lower tensiles, and overall better consistency. Rod mills in Korea, South Africa, the U.K., and Ukraine supply BOF rod. None of the domestic mills are BOF; they all use electric arc technology.

Another key is that buying imported rod also allows us to secure business that requires guaranteed long-term pricing. We have customers who request confirmed pricing for two quarters up to a year, but the domestic rod mills are unable to provide that kind of predictability. We have to negotiate for volumes with our domestic suppliers, and

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generally, they will confirm pricing for one month at a time. Domestic rod prices are generally tied to scrap prices which have been extremely volatile lately with dramatic swings both up and down. We have found that, while U.S. rod prices follow scrap prices up, when scrap prices fall, the domestic mills don't usually reduce their prices. For example, scrap recently dropped by \$30 a ton, but the U.S. rod mills have sent out letters stating that they are maintaining their current pricing levels and not acknowledging a scrap decrease.

Another advantage of imported rod is that we can purchase in larger quantities. Our Nashville plant is located on the Cumberland River, so we prefer to buy barge loads of 1,500 tons per barge. All of our imported rod arrives by barge at our plants. However, only two of the Petitioners can deliver to us by barge. Each barge that we receive is equivalent to 75 truckloads. It takes only four hours to unload a barge, but to marshal 75 truckloads of domestic material in our receiving yard takes considerably more time and manpower and leaves a much higher carbon footprint. So there are real cost and environmental savings in receiving rod by barge.

As you can see, we have to consider a number of factors which affect the total cost of our rod and our purchasing decisions. Price is only one of those factors.

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The domestic rod industry's reliance on trade cases to restrict our access to the global rod market makes us uncompetitive in a global economy—making it impossible for us to be the lowest cost producers and forcing our customers to move production and jobs overseas. If the domestic mills are the only game in town, I have real concerns about whether my company and other independent wire producers will be able to get the rod tons needed. Ultimately, if we lose customers, so will the rod mills.

Thank you.

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**TESTIMONY OF CHRISTIAN STAUFFER
VICE PRESIDENT—SOURCING AND LOGISTICS, INSTEEL INDUSTRIES INC.**

APRIL 18, 2017

Good morning.

My name is Chris Stauffer, and I am Vice President for Sourcing and Logistics at Insteel Industries Inc. in Mount Airy, North Carolina.

Insteel is the nation's largest manufacturer of steel wire reinforcing products for concrete construction applications. We manufacture and market drawn wire, pre-stressed concrete strand, and welded wire reinforcement products (such as engineered structural mesh, concrete pipe reinforcement, and standard welded wire reinforcement). Our sales of these products exceed \$400 million annually.

Insteel operates ten plants in eight states—North Carolina, Florida, Pennsylvania, Tennessee, Kentucky, Missouri, Texas, and Arizona—and we employ nearly 1,000 American workers. We have pursued an ambitious capital expenditure program to

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strengthen our position in the market. Total outlays this year are expected to reach \$25 million as we complete the expansion of our PC strand facility in Houston, add a new production line in St. Joseph, Missouri, and continue to upgrade our production technology and information systems.

Insteel consumes more than 450,000 tons of wire rod annually, and we source between 70 and 75 percent of that tonnage from domestic rod mills. We buy from all of the petitioners in this case. Since 2014, our purchases of U.S.-made rod have steadily increased.

In making Insteel's purchasing decisions, I consider quality, availability, and price—in that order. Of course, price is a factor in negotiations with our rod suppliers, but quality and availability are my primary considerations when deciding from whom to purchase. Other important factors in our purchasing decisions are transportation costs and the condition of the rod on arrival at our plants.

Wire rod prices tend to fluctuate based on changes in scrap and other metallic prices, as well as changes in domestic and global market conditions. Rod prices also vary based on volume commitments to suppliers which can be monthly, quarterly, semiannually, or annually. Domestic rod producers change their prices monthly in order

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to maintain their margins as their raw material (scrap, DRI, pig iron) costs increase. The industry as a whole regularly sends out price increase letters. With no predictable pricing algorithm month to month, our efforts to maintain steady inventories and ensure that we have sufficient wire rod for our multiple locations put us at the mercy of the domestic industry.

I would also note that, in purchasing wire rod, Insteel does not buy imported rod “instead of” domestic rod. We consistently buy from both domestic and import sources because our commitments to our customers require a continuous supply of rod from all sources. Many of Insteel’s customers supply products to U.S. infrastructure projects which are subject to “Buy America” or “Buy American” requirements, so we must purchase domestically produced rod for these purposes. In order to comply with these domestic content requirements, we work closely with our domestic suppliers to be able to certify that the rod they supply to us is melted and poured here in the United States. These Buy America and Buy American requirements apply to segments of the PC strand market and the majority of our concrete pipe reinforcement and engineered structural mesh products. We have to certify to our customers that our products are in compliance with various Federal and state regulations requiring domestic materials. We cannot use

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imported rod for these purposes. This affects a significant part of our total business, and the percentage is even higher when you consider that most of our customers in these markets don't want to maintain separate inventories of Buy America qualified materials—so Insteel must supply those customers only with products that satisfy domestic content requirements.

Like the other wire producers here today, we also compete with our domestic rod suppliers in downstream wire and wire products markets. Each of the petitioning companies is also a competitor. They are vertically integrated, producing both wire rod and wire products including welded wire reinforcement products and PC strand. They compete with us at every level in the markets we serve throughout the United States in all geographic areas. Their downstream operations also compete with us for supplies of wire rod, and we know they will be given preference if rod shortages develop in the market or deliveries are delayed or cancelled. One of the Petitioners even told Insteel's CEO that they intended to go downstream in the mesh and PC strand business and use the power of their rod production to out-compete Insteel. The exact quote is: "We will out-Insteel Insteel." In tight supply conditions caused by restricting access to global sources of rod,

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the domestic industry will be in a position to limit supply to Insteel—while continuing to support their downstream wire companies in direct competition to us.

For most sectors of the U.S. market, domestic demand for wire rod exceeds domestic production capacity, and it has been this way for some time. The ITC's own case records can readily support the notion that there has been a flow of imported wire rod to the United States for many, many years. Imports of wire rod are necessary to satisfy the supply requirements of the U.S. wire market. I am very concerned about this supply-and-demand imbalance because—in any year—the domestic industry will have planned and unplanned outages, as well as production schedules running at 100 percent of current capacity utilization as the mills define scheduled capacity. Twice last year, one of the petitioning mills reduced our allocation of rod by ten percent because the mill was overbooked. We were told that the overbooking was due to strong rebar and rod orders and that the mill was cutting all customer orders as a result. Insteel was forced to cover our full rod requirements elsewhere. This same Petitioner informed us that our April 2017 orders would have to be pushed into May because the mill was full in both March and April. At the end of 2016, another Petitioner informed us that they had no production space left in their mill for December and that they would be unable to

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produce material for Insteel until their January 2017 rolling. In supply circumstances like these, the integrated rod mills in the United States—including all of the petitioners—will give a higher priority to their own captive consumption of wire rod to make downstream wire products—which compete directly with Insteel and other independent wire companies, and we would have no alternative sources of supply. This would be disastrous for the U.S. wire and wire products industry.

Thank you.

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**TESTIMONY OF ROBERT MOFFITT
VICE PRESIDENT—PURCHASING, HEICO WIRE GROUP**

APRIL 18, 2017

Good morning.

My name is Bob Moffitt, and I am Vice President—Purchasing for the Heico Wire Group, which includes Davis Wire and National Standard.

The Wire Group is the largest consumer of wire rod in western North America and one of the largest in the United States. We employ approximately 650 people in our plants in California, Washington, Oklahoma, and Michigan. A fifth mill in Colorado was closed in mid-2015 because of poor wire market conditions.

We draw wire for use in agricultural and merchant products, industrial and specialty products, building and reinforcing products, and the automotive industry. We purchase low-carbon, high-carbon, bead, and weld wire rod for these applications.

The Heico Wire Group is a strong supporter of the U.S. rod industry. We prefer to buy domestically. In fact, during the period being investigated by the Commission, we bought between 75 and 85 percent of our total requirements from U.S. sources.

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Although we prefer to buy from the domestics, we have learned through experience that it is essential to maintain multiple sources of wire rod. As a result, we made a strategic business decision some years ago that we would purchase between 25 and 30 percent of our wire rod requirements from offshore producers and the remaining—between 70 and 75 percent—domestically. This is why I take exception to the question in the purchaser survey that I received from the Commission which asked whether I purchased imported rod “instead of” domestic material. It is not a question of “either/or”; it is a question of having both sources available to us.

In deciding where to source rod, the three most important considerations for me are the relationship I have with the vendor, the cost of the rod—as opposed to its price—and timely delivery. Vendor relationships are important because I am aware of the capabilities, quality, and reliability of each of my suppliers, and I know the mills that I can depend on to ship rod that meets our company’s standards. At times, we pay a higher price to these domestic mills than their domestic competitors because of these relationships.

The cost of the rod is critical. By cost, I do not mean the price on the supply contract, but the actual cost to my company for using the rod in our wire-drawing

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operations. Prior to any rod negotiations, I must evaluate several factors, including coil size, scale weight, mill trimming practices, surface quality, and the physical and mechanical properties of the wire rod. These factors are critical because the lowest-priced rod is not necessarily the lowest-cost rod. For example, the weight of a coil is important because a smaller coil requires more welds to maintain continuous drawing and smaller coils generate more scrap—so more steel is lost per ton. This increases our costs. With imported rod, we often find damage from mishandling and poor packaging which contributes to breaks during the wire-drawing process. Higher breakage rates and slower drawing speeds mean that fewer pounds of rod can be drawn per hour. This increases our costs. Domestic mills ship via rail and truck usually with one heat per load. A heat is a unique melt of steel with consistent physical properties throughout, and we inventory our rod purchases by heat. Imported rod comes in consignments of 5,000 to 30,000 tons and heats are always commingled. This makes it more difficult for us to manage our inventory and, thus, increases our costs. Imported rod must be carried in inventory for longer periods of time because of the larger consignments which further adds to the cost of the material. So I must always consider the effect of these various factors on the cost of our raw material—and not simply the purchase price from the rod mill.

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Another key consideration in my purchasing decisions is timely delivery. Our wire companies cannot operate efficiently without a reliable and predictable supply of raw materials. The cheapest rod in the world is of little use to me if it is delivered late or not at all—or if it arrives in an unacceptable condition. Today, lead times from domestic mills—which had been four to six weeks—have been stretched to six to eight weeks.

Like the other wire companies on this panel, Heico competes in downstream markets with many of the same mills who sell us rod. This puts us in a difficult position, especially if there are shortages in domestic supply because we know that the domestic mills will take care of their own wire companies before they take care of us. There are also instances where the domestic rod mills are competing with other domestic mills and even with themselves. For example, one domestic mill complained to me about losing business to imports when it was actually other domestic mills that offered us lower prices. Another domestic rod supplier sells us wire rod that we use to make weld wire which we, in turn, sell to that supplier's affiliate. However, when that rod supplier increased its rod price to us, its affiliate refused to pay more for the wire we made from

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that rod. In another case, a domestic supplier who sells rod to us for our galvanized wire lines has imported the very product we have in the past produced from their rod.

I feel it important to point out that the real threat to the domestic rod industry is not imported rod but rather imported wire. As Ms. Korbelt said earlier, the problem facing the domestic rod mills is that total rod demand has declined as the result of their trade cases. The 2014 AD/CVD affirmative decision on China is a perfect example of the damage that a trade case can do to the domestic rod industry. My company actually bought fewer tons of rod – domestic and imported– as a result of that case. Our largest competitor on the west coast is located in Vancouver, British Columbia. After the US case against China, our competitor had no restrictions on its imports of rod from China, and Canadian statistics show a dramatic increase in shipments of wire rod from China to Canada. They also can buy rod from Mexico, another country under order in the US. This rod from China and Mexico is being converted in Canada to wire and wire products and exported to the U.S. at prices substantially below what we could offer our wire. In the end, countries denied access to the U.S. market will continue to produce wire rod but it will end up in the U.S. as a finished wire product – not only from that country but from third countries as well.

Thank you.

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TESTIMONY OF TERENCE HUGHES
DIRECTOR OF PROCUREMENT
BEKAERT CORPORATION—NORTH AMERICA

APRIL 18, 2017

Good morning.

My name is Terry Hughes, and I am Director of Procurement for Bekaert Corporation in North America.

I have been with Bekaert since 2004, and I have a degree in metallurgical engineering and a master's degree in business administration.

Bekaert is the world leader in steel wire technology and production. Our headquarters are located in Marietta, Georgia, and we operate five plants in the U.S.—one each in Georgia, Kentucky, and Ohio, and two in Arkansas. We employ more than 1,344 workers in the U.S.

Our normal rod usage is 350,000 to 360,000 tons annually. Multiple sourcing is very important for us as we try to manage the risks of our business. We purchase about

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one-half of our requirements from U.S. rod mills, including all four petitioners. We also purchase from all subject countries but one.

Half of our wire sales are to the automotive sector and the remainder to the agricultural, construction, fencing, and energy and utilities segments of the U.S. market.

Tire cord is one of our largest product segments—consuming one-third of our total rod purchases. Our capital expenditures have been substantial, related mainly to investments in tire cord production.

For example, Bekaert has recently invested several million dollars in our Rome, Georgia, plant that uses steel tire cord wire rod to produce material for the North American tire and reinforced hose market.

Automotive markets performed well throughout 2016 and are projected to remain strong for this year. To meet the growing demand from tire manufacturers, we had planned to implement a major expansion at our plant in Rogers, Arkansas, which would increase our North American tire cord production capacity by 50 percent and add over 100 new jobs. At this point, our investment plans are on hold pending resolution of

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this case, as undertaking such commitment does not make business sense if the tire cord wire rod will not be available from imported BOF suppliers.

Domestic mills cannot produce tire cord with the quality necessary to fine draw these products to meet our requirements. Tire cord wire rod has been excluded from prior cases. Nevertheless it has been included in this one, and Bekaert strongly believes that it should be excluded once more.

Because this rod is not available domestically, we have to source it from other countries. Our customers need and specify basic oxygen furnace or BOF material, because the BOF process produces a very pure input—in other words, steel that does not have high residual or tramp elements and tensile properties and is more consistent. BOF material is available only from mills outside the United States, including Ukraine, South Africa, Korea, UK, Turkey, and Spain. We purchase imports based on the type of production—BOF and not electric arc furnace or EAF—because the recycling in the EAF process results in increased percentages of tramp elements. So tire cord wire rod used in the manufacturing of tires and high pressure hydraulic hoses must be BOF to work at peak performance.

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I would also like to mention that it takes about two years to qualify a supplier of tire cord wire rod. It is a demanding process because these products are used in high liability downstream markets—like automobile tires and high-pressure hoses. Each time we want to qualify a new rod supplier, Bekaert has to requalify itself with the tire manufacturers. This process is not only time consuming but also expensive for all parties involved. Other grades requiring BOF production are book-binding wire used in spiral notebooks and automotive springs.

Therefore, sourcing high-quality BOF material is one of the most important considerations when I purchase wire rod. Also important is the total cost of ownership, as Mr. Moffitt explained, which also includes the production capacity of the supplying mill and the supplier's ability to meet Bekaert's delivery requirements and lead times. If domestic suppliers are full and cannot supply in a timely manner, we must go offshore to become less reliant on highly occupied mills. One domestic mill has Bekaert on monthly allocations, and lead times have been extended by domestic rod mills, including all four Petitioners. We tried to rely heavily on domestics during the past two quarters, but they are behind in deliveries. A number of domestic mills have told us that they are almost fully booked through second quarter 2017.

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Bekaert must be able to source tire cord wire rod and other BOF material to meet our customer's demands. We would like to highlight that we make significant efforts to partner with our domestic suppliers, negotiate key supplier agreements, and purchase locally when possible; however, we must have the possibility to purchase globally when BOF quality material is not available in the domestic market.