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FIVE-YEAR “SUNSET” REVIEWS INVOLVING STAINLESS STEEL COILED PLATE AND STAINLESS STEEL SHEET AND STRIP

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(This paper was prepared by the Flat-Rolled Task Force of SSINA, comprising the following companies: AK Steel, Allegheny Ludlum and North American Stainless.)

Overview: The U.S. International Trade Commission is conducting five-year “sunset” reviews of antidumping and/or countervailing duty orders on stainless steel plate in coils from Belgium, Canada, Italy, Korea, South Africa and Taiwan and on stainless steel sheet and strip from France, Germany, Italy, Japan, Korea, Mexico, Taiwan and the United Kingdom. The Commission must determine whether revocation of these orders would be likely to lead to the continuation or recurrence of material injury to the domestic stainless plate or stainless sheet industry by reason of dumped or subsidized imports from these countries. If an affirmative finding is made, the orders which were imposed against these imports in 1999 will remain in effect for an additional five years. The Commerce Department has already found that dumping and subsidies would be likely to continue or recur if the orders were revoked.

Important Dates: Requests to testify at the ITC hearing in the stainless plate sunset review are due by March 21, 2005, and the hearing in that case will take place on March 30th at 9:30 a.m. Requests to testify at the ITC’s hearing in the stainless sheet and strip review are due by April 22, 2005, and the hearing in that case will take place on April 26th at 9:30 a.m.

U.S. Industry Position: Were the Commission to revoke the outstanding orders against subject imports of stainless steel coiled plate and stainless steel sheet and strip, it is likely that the volume of these imports would increase, that the prices of the imports would decline to undercut U.S. price levels, depressing and suppressing U.S. prices, and that the domestic industries producing these products would be materially injured by these unfairly traded imports.

History and Overview

- In 1998, unfairly traded imports of both stainless steel plate and stainless steel sheet and strip surged into the U.S. market, causing severe injury to the industries producing these products.
- Despite increased demand for both products, domestic producers’ market share fell, supplanted by subject imports. Of even more concern, despite strong demand for the

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products, the U.S. industry suffered price declines and a serious erosion of profitability, as the unfair imports undercut and depressed U.S. prices.

- Based on these facts, the Commission reached affirmative findings of material injury caused by the unfairly traded imports in both cases and, in 1999, orders were imposed.
- In the aftermath of the imposition of these orders, the volume of imports from the subject countries declined dramatically, reflecting the inability of these imports to compete in the United States on a fair trade basis.
- As a result of the reduction in unfair imports once the orders were imposed, prices began to increase and the domestic industry's profitability improved in 1999 and 2000.
- Unfortunately, in 2001 and continuing through 2003, the market for stainless steel plate and sheet collapsed, and the industry's condition deteriorated significantly despite the despite the presence of the orders.
- In 2004, demand for stainless plate and sheet increased, although still not to 1999 levels, permitting the domestic industry to increase prices and profits, although prices still remained below historical levels.
- Were the orders to be revoked now, the recovery that the U.S. industry has just begun to experience would dissipate, as unfairly traded imports surged back into this market at low prices, preventing the domestic industry from benefiting from a stabilized market and completing its return to health.

Import Volumes Will Increase if Revocation Occurs

- Foreign capacity to produce stainless steel sheet and plate has continued to increase while the orders were in place, thus posing a significant likelihood of increased U.S. exports if revocation occurred.
- Recently, despite the presence of these orders, subject import volumes have begun a steady and significant increase, most notably from Mexico, France, Italy and Taiwan on stainless sheet and Korea on stainless plate.
- These volume increases, which indicate subject producers are anxious to resume exporting to the U.S. market at significant levels, will only continue and accelerate if the orders are removed.
- While China has become an important export market for many subject producers, the situation in China is changing rapidly. China's increased production of stainless flat-rolled products will force subject producers to seek alternative export markets.
- The largest and most attractive export market for foreign producers of both stainless plate and stainless sheet has been and remains the U.S. market.

Prices of Stainless Plate and Sheet Will Decline if Revocation Occurs

- Following imposition of the orders, U.S. prices of stainless plate and stainless sheet increased or stabilized, as the unfair price competition was offset by the orders. Due to weak overall demand for these products in 2001 and 2002, an erosion in pricing occurred, but the orders prevented the bottom from falling out of pricing.
- By 2004 when demand for these products increased, and while subject imports remained under the discipline of the orders, U.S. producer prices also rose.
- Although total prices have increased, most of that increase reflects increased surcharges for certain raw materials. Base prices for U.S.-produced stainless plate and stainless steel sheet and strip, while increasing, have still not returned to historical levels.
- Significant cost increases will create a cost/price squeeze for U.S. producers if subject imports resume dumping and underselling U.S. prices.
- Stainless plate and sheet remain highly price-sensitive, commodity products, for which imports are able to quickly regain customers and market share simply by undercutting U.S. prices.

The U.S. Industry Will be Materially Injured by Unfairly Traded Imports if Revocation Occurs

- The domestic industries producing stainless plate and sheet have suffered numerous years of ill health, including problems suffered during the review period due to weak demand in the market for these products.
- The recent return to profitability and improvement in the industry's condition due to a strong market in 2004 will quickly dissipate if large volumes of low-priced imports return to this market.
- The stainless plate and sheet industries are cyclical, and the upturn in demand in 2004 cannot serve as the basis for projecting future likely industry health. Indeed, it is already apparent that the strong market of 2004 is not continuing in 2005, with lead times shortening and demand declining.
- The Commerce Department has completed its sunset reviews of these orders and has concluded that dumping and subsidies will continue or recur if the stainless steel coiled plate orders are revoked. Likely dumping margins on stainless plate are significant: Belgium, 9.86 percent; Canada, 11-15 percent; Italy, 45 percent; Korea, 6.08 percent; South Africa, 41.63 percent; and Taiwan, 7 to 10 percent. In addition, Commerce has found that subsidies are likely to continue for Belgium, Italy and South Africa.

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- Commerce similarly found that dumping and subsidies will continue or recur on stainless steel sheet and strip from subject countries. Likely dumping margins on stainless sheet are also substantial: France, 9.38 percent; Germany, 13.48 percent; Italy, 11.23 percent; Japan, 40 to 58 percent; Korea, 2.5 to 58.8 percent; Mexico, 30.85 percent; Taiwan, 12.6 to 36.4 percent; and the United Kingdom, 14.84 percent. Commerce also found that subsidies would continue or recur to producers in Italy and Korea.
- Resumption of unfair trading practices at these levels, and a similar return by imports to the volume and pricing behavior witnessed in 1998, will quickly cause the domestic industry's condition to worsen and will reverse all gains that the industry began to experience in 2004 for the first time in many years.

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