Wednesday, May 31, 2017

Brad Botwin
Director, Industrial Studies, Office of Technology Evaluation, Bureau of Industry and Security
U.S. Department of Commerce
1401 Constitution Avenue, NW, Room 1093
Washington, DC 20230

Mr. Botwin,

I submit these written comments specific to the rebar industry in the U.S.A. pursuant to the Section 232 investigation commenced by Secretary of Commerce, Wilbur Ross, on April 19, 2017. I am the founder and managing principal of Metal Partners International. We are one of the largest independently owned distributors and fabricators which sells approximately 400,000 tons per year within the U.S.A.

Our three fabrication plants are located in Bakersfield, CA; Hammond, IN and New Castle, DE. Additionally, we have a joint venture relationship with Midwest Rebar Coating in Schererville, IN, at which we epoxy coat rebar in support of infrastructure projects such as roadways and bridges. We are currently in the process of opening a second epoxy line at our facility in New Castle, DE to support the existing infrastructure and new proposed projects in the Northeastern part of the United States.

Due to vertical integration of the domestic mills (Nucor, CMC and Gerdau), we are not able to compete on larger projects as an independent fabricator with domestic rebar. I witnessed the oligopolistic environment evolve as I worked for Gerdau before starting Metal Partners International. After all the mills had consolidated, the next step was to control their production by purchasing strategic fabrication shops within their customer base. Approximately 50% of the mills' capacity levels today are consumed by their internal downstream operations. Stated otherwise, large domestic producers maintain elevated pricing levels in relation to smaller, independent producers and thereby create price suppression in their downstream operations, making it unprofitable for an independent producer to purchase material while simultaneously competing with them. Imported rebar has represented a substantial solution to this market inefficiency and has enabled independent fabricators to survive in the face of these protectionist practices. Gerdau has recently divested its downstream operations in the Midwest and is making similar attempts to do so on the west coast in response to this unprofitable link in the supply chain.

I submit that it is critical to review the data and assess the most recent AD trade suits. In 2014, the U.S. domestic mills filed suit against Turkey and Mexico. The result of the suit against Mexico was positive for our industry; however, it is important to note that Mexico's two largest consumers in the U.S. before the suit was filed were in fact Nucor and CMC, the same mills which commenced the trade suit. In 2016, the domestic mills filed another AD suit against

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Turkey, Japan and Taiwan. Japan and Turkey filled the void as a result of Mexico being removed as a supplier to the U.S. market from the 2014 trade suit. However, it is important to note that Japan's largest customer in the U.S. market up until the 2016 trade suit was Nucor and that one of Turkey's largest customers was and remains CMC.

Metal Partners International buys approximately 50% of its steel from domestic suppliers such as Gerdau, Steel Dynamics (SDI), Kyoei Steel (formerly Arcelor Mittal), Cascade Steel, CMC, Keystone Steel and Evraz Steel. We would prefer to buy more domestic rebar. However, U.S. mills do not offer adequate supply.

- Nucor, the largest producer, has refused to sell Metal Partners International since repeated attempts dating back to 2009. Nucor has freely acknowledged that it will not sell us rebar because we compete against Nucor's downstream distribution company, Harris Supply, as well as one of its top customers, Adelphia Metals. In the Midwest, rebar is supplied by either Gerdau from Knoxville, TN or Nucor from Kankakee, IL. In the event that Gerdau has an insufficient supply or its production is delayed, Metal Partners International has no alternative domestic source. Unfortunately, this market heavily relies on imported steel to fill the void. I find it unacceptable that Nucor Steel has a mill approximately 1 hour from our epoxy coating line and fabrication facility in Indiana, yet still refuses to sell us rebar. In addition to being overtly anticompetitive, this practice is discouraging to the workers employed at the Nucor plant and does Nucor's workforce a significant disservice. I have brought this scenario to the attention of Dan DiMicco, former economic advisor to President Trump, at the MSCI economic summit in 2015. As a potential and credit worthy customer to Nucor, this is the environment of a regional monopoly.
- CMC has been willing to sell Metal Partners International since 2015. However, CMC lacks the production capacity to meet our needs and those of other domestic customers. CMC is attempting to address its capacity limitations by building a rebar mill in Durant, OK which illustrates the supply constraints within its own internal infrastructure. CMC's choice to import rebar underscores the stark reality of supply constraints in the United States.

In to 2006, we experienced domestic market conditions in which, despite the fact that rebar mills were running at full capacity, market demand required that approximately 24% of product be sourced from foreign producers. 2,587,441 net tons were imported against 10,802,638 tons of consumption. We saw import penetration reach a low of approximately 7.5% in 2009 and 2010, but imports have continued to regain U.S. market share and are projected to be in excess of 20% penetration in 2017. Tellingly, domestic mills have not increased production capacity in the face of these factors and have chosen instead to allow this to happen by mismanaging their downstream operations. This process, in turn, undercuts the independents, which are unable to participate on competitive price levels. Scrap is exported from the U.S. to the same countries that are supplying a competitively priced finished product now subject to tariffs separate from Section 232. The U.S. should be able to compete in its own domestic market in view of the fact that the U.S. generates the majority of the scrap for the production of the finished rebar products.

In furtherance of the goal of American self-reliance and to address national security concerns, I am a proponent of invoking protection for domestic suppliers. One significant component of this protection, however, should include the imposition of accountability on U.S. mills, which have openly flouted principles of market competition and made it impossible for independent producers such as us to fully source domestic rebar. One short term success to highlight in result of the 2016 AD determinations against Japan is that it provoked the investment for Kyoei Steel (a Japanese steel producer and former exporter to the U.S.) to purchase Arcelor Mittal's rebar and grinding ball plant in El Paso, TX. Despite the perception of extreme measures, markets will find their way. In the same event, I am a firm believer that limitations imposed in result of section 232 findings would result in significant new rebar mill capital expenditures leading to thousands of new jobs. I respectfully suggest that we monitor and control domestic production and shipments, setting a limitation and tiered approach to the amount of imported rebar that can be allowed into the U.S. market. Domestic mills need to take steps to increase production and make further capital investment in order to add capacity, thereby protecting our national security interests, ensuring economic stability and promoting free trade on a domestic and global scale in view of the Trump Administration's stated infrastructure agenda. Currently, we are not positioned to handle anticipated demand without further investment in our steel mills. We could quickly surpass consumption levels that peaked in 2006, leading to a shortage of supply which will in turn lead to increased prices and, most significantly for the citizens of this nation, missed opportunities to address deferred infrastructure improvements which are so meaningful to our future.

I welcome the opportunity for further discussion.

Regards,

Frank Bergren
Managing Principal
Metal Partners International