BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION

HEARING STATEMENT OF ILJIN STEEL CORPORATION

In the Matter of

Certain Oil Country Tubular Goods (OCTG) from India, Korea, Philippines, Saudi Arabia, Taiwan, Thailand, Turkey, Ukraine and Vietnam

Investigations 701-TA-499-500 and 731-TA-1215-1223 (Final)

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ILJIN Steel Corporation ("ILJIN") is a Korean manufacturer of steel pipes and tubes. Since August, 2012, it has produced and exported to members of the U.S. oil country tubular goods ("OCTG") industry semifinished, un-heat treated seamless green tubes. These seamless green tubes are heat-treated and otherwise processed after importation by members of the U.S. OCTG industry, who then sell the resulting finished seamless OCTG in the U.S. merchant market.

ILJIN does not sell any OCTG in the U.S. merchant market, and therefore does not compete with members of the U.S. industry in that market. Indeed, we do not compete at all with U.S. OCTG producers. To the contrary, we are a supplier to processor members of the U.S. industry. Those U.S. producers inform us that ILJIN does not compete with U.S. producers in our sales of un-heat treated seamless green tubes, because U.S. producers do not offer to sell such semifinished, unheated OCTG to our processor customers for processing into finished OCTG.

Before getting to the fundamental point of this testimony, let me remind the Commission that it has determined – in the preliminary determination in this case and consistently in prior OCTG investigations – that OCTG that is heat treated after importation and before sale in the merchant market is, in those merchant market sales of finished OCTG, a product made in the United States. And the U.S. processors who sell that finished OCTG are members of the U.S. industry. In this determination, the Commission is consistent with the practice it has followed in other cases involving substantial U.S. manufacturing of imported unfinished material. I refer you, for example, to <u>Certain Wax and Wax/Resin Thermal Transfer Ribbons</u> (USITC Pub. 3854), <u>Certain</u>

Lightweight Thermal Paper (USITC Pub. 4043) and most recently Sugar from Mexico (USITC Pub. 4467).

The fact that ILJIN, like a number of other respondents in this investigation, is a supplier to rather than a competitor of domestic U.S. producers gives ILJIN a clear perspective on an aspect of U.S. OCTG market competition that must be central to the Commission's analysis of this case.

This is a price effects case. There is no credible argument that the U.S. industry has suffered material injury through loss of volume to subject imports. U.S. producers' volume, capacity and capacity utilization are all up. The volume of confirmed lost sales and lost revenues is totally insignificant. To the extent that the domestic producers can claim any injury at all, that claim must be that a decline in the price for OCTG during the POI reduced the industry's profitability somewhat below the record levels they enjoyed before the recent Great Recession.

So a central, perhaps the central issue you must address is: what caused the decline in the market price of OCTG? Was it competition from subject imports? Or was it something else?

This is where ILJIN can help you, in two respects. First, we can help you understand why competition between domestic producers and subject imports has not had any significant effect on U.S. industry prices. Second, and more important, we can help the Commission understand how the primary factor affecting OCTG market prices has been competition among the domestic producers, not competition between domestic producers and subject imports.

On the first point, the Commission must be wondering why its underselling analysis, based on product categories chosen by the petitioners as the ones in which domestic firms' competition with subject imports is most intense, has turned up such a small volume of head-to-head competition. There are, of course, several reasons, including the effective exclusion of subject imports from large portions of the market, such as proprietary couplings and program sales.

But one important reason is that a significant portion of the subject imports, like those of ILJIN, are <u>sold to</u> U.S. producers rather than in competition with U.S. producers. The Commission properly excluded from its questionnaire request sales in the merchant market of finished OCTG produced by heat treatment in the U.S. of imported green tubes. That takes <u>all</u> of ILJIN's imports out of the underselling analysis. It also excludes a substantial portion of other Korean imports and imports from other respondent countries.

If it is clear that competition from subject imports did not depress the U.S. market price; it is even more clear that <u>competition among U.S. producers was the principal cause of price depression</u>. This is not only what ILJIN's U.S. customers report; it is what the staff data clearly show. Huge additions to U.S. OCTG production capacity resulted in aggressive price-cutting by U.S. integrated mills and processors in an effort -- ultimately successful—to fill that new capacity with new orders.

What happened in this market is obvious from the staff report data. At the beginning of the POI, the U.S. mills (the petitioners in this case) saw the U.S. OCTG market as an area of rapid growth in demand. Accordingly, they embarked on truly massive additions to capacity, <u>even though they were operating at a low level of</u>

utilization – 67.6% in 2011[1] -- that provided ample ability for them to increase production as demand grew. Despite this available capacity, from 2011 through 2013, the mills added 882,389 tons of new capacity, an increase of 17.92%.[2]

Second, and perhaps even more important, something big happened that the petitioners seem not to have anticipated. The other segment of the domestic industry – the processors – also saw the U.S. OCTG market as one of potential growth. These companies in 2011 were operating at a significantly better utilization rate – 76% -- than the integrated mills.[3] Their response to the anticipated growth in OCTG demand was to increase capacity even more aggressively than the integrated mills – by 61.64%, or 415,712 tons.[4] The processors' production rose by 52.74%, or 270,430 tons,[5] and their shipments increased in tandem.[6]

These data are critical to the Commission's analysis of this case, and warrant the following conclusions:

1. The combined amounts (for integrated mills plus processors) of new U.S. industry capacity substantially exceeded the entire increase in U.S. apparent consumption over the POI.
2. The increases in domestic industry capacity, production and U.S. shipments over the POI each dwarfed the increase in subject imports.
3. The far greater increases in U.S. producer shipments than in imports suggests strongly that domestic firms were pricing more aggressively than the importers. In particular, the data suggest that the integrated mills were the most aggressive pricers, as evidenced by the fact that the mills were able to increase their capacity

[1] Prehearing Report at III-13, Table III-4.
[2] Prehearing Report at IV-27, Table IV-14.
[3] Because this calculation involves confidential data, ILJIN will submit the numbers, and the explanation of the calculation, in its post-hearing submission.
[4] Prehearing Report at IV-27, Table IV-14.
[5] Prehearing Report at III-13, Table III-4.
[6] Prehearing Report at III-18, Table III-6 and III-19, Table III-7. Because these data are confidential, they will be presented in ILJIN's post-hearing submission.

utilization from 67.6% in 2011 to 70.7% in 2013, while the processors' capacity utilization fell from 76.0% to 71.8%.[7]

4. Finally, it should be noted that all of this intra-domestic industry competition occurred in the merchant OCTG market, whereas a substantial portion of subject imports were sold in the input market where U.S. producers essentially do not compete.

In summary, with respect to the issue on which this case turns – the cause of the decline in OCTG prices – the evidence of record is quite clear. This period saw a fierce battle among domestic producers – integrated mills and processors – to fill their plants. At the start of the period, U.S. producers (especially the integrated mills) were operating at low levels of utilization. Nevertheless, they greatly expanded capacity. Their increases in capacity and production greatly exceeded the rise in demand and dwarfed the increases in subject imports. The result was aggressive domestic industry price competition that inevitably forced down the U.S. market price for OCTG.

[7] Prehearing Report at III-13, Table III-4.