

BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

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Welded Stainless Steel Pressure Pipe)	Inv. Nos. 701-TA-548 and
from India)	731-TA-1298
_____)	(Final)

Testimony of Chad Robinson

Mr. Chairman and Members of the Commission:

Good afternoon.

1. My name is Chad Robinson and I am the head of global procurement for Warren Alloy and the Allied Group. Warren Alloy is a master distributor of stainless steel and alloy pipe, butt weld fittings, forged fittings, flanges and valves. We serve distributors of stainless pipe for various end use markets. As a master distributor, we stock a complete line of stainless pipe in a wide variety of sizes, as well as fittings, flanges, and valves. We design our inventory so that the valves, fittings and flanges match up to the pipe we sell. When our customers buy from us they normally are buying a package deal of pipe, flanges, valves and fittings so we provide "one-stop," just-in-time shopping for our customers of all the stainless products they may need for a particular project. This is a service that is not available from the domestic pipe and tube manufacturers or from most distributors, so this helps us to set ourselves apart and make us more competitive. Our customers tell us that this is a very important component of why they buy from us.

2. I would like to talk to you today about the U.S. market for welded stainless pressure pipe, or WSSPP. Imports have been a consistent presence in the U.S. market for many years. The reason for this is that the domestic industry cannot supply the entire U.S. market for stainless steel pipe and due to this fact, there have always been market segments in which imports dominate. This is a long term characteristic of the U.S. market. In fact, the absolute volume of imports has not really varied very much over the last ten years.

3. There are two distinct market segments for WSSPP in the United States. The first is for “Approved” product, meaning product produced by manufacturers who are on the approved manufacturers’ lists (“AMLs”) of the major U.S. end-users. Approved WSSPP serves market segments such as oil and gas, and other end use segments where health and safety are of utmost concern. End users use AMLs as a way of establishing their due diligence by purchasing only from established suppliers who have a proven record of quality and the ability to deliver merchandise on time and as required. The other major sector is what we refer to as the “generic” sector, which serves end uses such as the plumbing and commercial markets that do not operate based on AMLs. This distinction between the Approved and Generic market segments is not limited to just WSSPP, but also exists for other stainless products in which we deal, including pipe fittings, flanges, and large diameter stainless pipe that is outside the scope of this investigation.

4. Domestic producers sell Approved product and the major U.S. producers are on the AMLs of the major end-users. Other suppliers of Approved product include producers in Europe. Indian producers are not on any AML's and thus serve strictly the generic market. As a master distributor, Warren Alloy participates in both market segments, but our WSSPP offerings in the Approved sector have always consisted of either domestic product, or more recently, product imported from Europe. We also have some experience with WSSPP from Korea, which I would characterize as "semi-approved." That is, Korean producers, in particular SeAH, are on some AMLs, but they are less widely accepted than domestic producers or producers in Europe. Ta Chen is also on some AMLs and can be considered semi-approved.

5. Because imports from India are serving strictly the generic sector of the market, there is little or no direct competition between imports from India and domestically produced WSSPP. As a master distributor, we understand which markets will take which products. We buy from import sources other than India and we bought from Thailand and Malaysia before the orders on those countries went into effect. We see very limited competition between U.S. produced product and these imports. In my experience, our competition for sales into the generic sector of the market comes primarily from Ta Chen and from Korean suppliers. The domestic industry understandably focuses its efforts on the approved market.

6. I read in the public staff report, and I heard again this morning, that the domestic industry has operated at low capacity utilization and is claiming that they would have produced and sold a lot more WSSPP in 2014 if not for imports from India. Based on my experience in this market, that is not correct. First, it is nature of the pipe and tube business that all producers compute their capacity on a theoretical basis. As a result producers always report relatively low capacity utilization. The domestic producers have reported low capacity utilization for years. The same is true of producers in India, by the way. But in 2014, when demand surged, the WSSPP producers were operating flat out. They had a very high backlog of orders and lead times were drawn out. In my opinion, 2014 represented what is pretty much the practical maximum production of the domestic producers, regardless of what their theoretical utilization may have been.

7. Second, Over the past six years, Bristol and Outokumpo have not expanded or upgraded their facilities for smaller diameter pipe and I am not aware of any upgrades by Marcegaglia. Given the volatility in nickel prices even before the tremendous swings of the last few years, it is difficult for producers to plan for major increases in their capacity utilization. The market simply changes too quickly to allow for building up the needed raw materials inventories for capacity utilization increases.

8. Third, the focus of the major domestic producers has been, and remains, on the production of large diameter stainless pipe that is outside the scope of this investigation. They have chosen to focus their investments and their competitive efforts in the large diameter segment of the welded stainless pipe market over 14 inches which is associated with large projects for many years. Many of these large diameter products are produced on different equipment, and in many cases, feature specialized welds. This market segment has been very strong for the last few years due to the boom in the oil and gas sector and increased capital expenditure projects.

9. While 2014 was a very good year for the WSSPP market, 2015 and 2016 have not been. I can tell you as a resident of Houston, Texas that the near collapse of oil and gas demand has had a tremendous effect on our economy. Although, as I explained, Indian WSSPP does not sell into the oil and gas sector or the other segments using Approved product, the crash in oil and gas demand has rebounded throughout the WSSPP market. When drilling activity increases, this leads to additional spending on related infrastructure such as hotels, retail stores, *etc*, all of which consume Generic WSSPP. In late 2014 and through 2015 and 2016, drilling all but stopped, and demand cratered, not only for Approved product, but also for Generic as well.

10. All suppliers of WSSPP have also been hit very hard by falling nickel prices. I have never seen such a constant decline over such an extended period. We got pretty beat up by that because our Indian suppliers were not very good about getting us the material we ordered on time and in full. So we were sitting there watching our ordered inventory devalue even before it reached us. There is nothing worse than sustained nickel declines eroding inventory values while WSSPP pricing is falling. We depend on nickel prices going up and down to leverage our inventory but nickel prices dropped twenty straight months between the end of 2014 and through the second quarter of 2016. Of course, the industry has made itself more susceptible to commodity price fluctuations by having an important part of the price depend on nickel surcharges that are completely transparent to customers.

11. 2015 was the worst year for this industry in terms of profitability and sales for us as a master distributor in many, many years. The confluence of a large, sustained decline in nickel prices and a collapse in demand in the largest end-use sector has been very difficult for us. So I am not surprised that the U.S. producers had a very bad year too. I would be very surprised if the domestic producers were making any money the first part of this year. We are not, and the same dynamics have been at work in 2016: falling nickel prices and falling prices for WSSPP. But Indian imports are not the cause of the domestic industry's problems, and imposing

penalty duties on these imports will not help the domestic producers. Things will get better when the oil and gas market recovers and nickel prices increase. The dramatic decline in imports from India this year has had no effect on the market. Prices certainly have not recovered at all.

12. It may be surprising after hearing this morning's testimony but quality is very important in this industry and in my experience if a producer is perceived as having quality that is below the purchaser's acceptable level that issue is not going to be overcome by a price negotiation. While WSSPP is expensive, it is a relatively small share of the total project cost in most applications, so differences in price are outweighed by quality and reliability. In other words, it is only if the purchaser perceives that the quality is at an acceptable level that you can then negotiate a price which reflects the lower – but acceptable – quality. In the WSSPP industry "quality" means more than simply meeting the applicable specification. WSSPP is also differentiated by factors such as the size of the weld bead, the type of packing provided and cosmetic factors. These characteristics are important to many customers, and there is no question that Indian WSSPP lags behind the domestic producers with regard to these factors.

13. Until 2014, imports from India were not a significant presence in the U.S. market. However, the orders on Malaysia, Thailand, and Vietnam that went into effect in 2013 significantly reduced the supply of imports to the U.S. market.

With demand increasing in 2014, demand for imports was also strong. Import volumes increased in 2014, not only from India, but also from Korea and Taiwan. The first half of that year was particularly strong. We put the brakes on our purchases around the third quarter of 2014 when the market was softening and nickel prices continued to fall.

14. As a master distributor, we have purchased from domestic producers in the past, particularly for 10 inch and large pipe, which we sold in the Approved segment. The fact is that U.S. producers do not accept our role as a master distributor and prefer to sell directly to our customers. However, in 2013 and 2014, the domestic producers increasingly were stocking the same items we carried in our inventory and offering to sell them to our customers at the same prices that they quoted to us. In other words, they viewed us as competitors and tried to cut us out of the distribution chain. This led to our reducing our purchases from the domestic industry. Then in 2015, after years of doing business together, Felker Brothers notified us that they would no longer sell to us.

15. Given the approach of the U.S. producers, we found there was no way to distinguish ourselves with the customers if we both handled the same producers' products. As a result, we shifted our sourcing for our Approved business to a European supplier. For the generic business, we had never sourced those products from domestic producers. We were purchasing from Thailand and Malaysia in

2013 but after the duties were imposed, those sources were no longer available. We had previously done business in India in some of our other product lines, so when we lost our source of generic product and demand took off in 2014, we developed new suppliers in India. We also purchase from other import sources.

16. India as a source of supply is more challenging than other import sources, mostly because it is new to the U.S. market and it is perceived to be of lower quality. As I mentioned, while Indian pipe meets all applicable specifications, the fact is that the market still has the perception that Indian imports lag behind in overall quality. I can also say that Indian production schedules and supply can be erratic and that has caused us some issues with our customers. We had to increase inventories to deal with it but the fact is that we have not been able to completely protect our customers from the disruptions. During the POI, the time from order to delivery has been 9-10 months, with some deliveries delayed even longer. The majority of the shipments in 2015 were orders placed in the first half of 2014 or even 2013. We began reducing our orders in the last quarter of 2014 and continued that trend throughout 2015.

17. Indian suppliers do not offer the same breadth of products, in terms of special alloys and custom wall thickness that the U.S. producers offer. While the volume is not large, domestic producers have high margins in these specialty alloy

segments. That business is 100 percent AML-based, and imports from India do not compete there at all.

18. There are also some market segments that insist on “domestic only” either out of concerns about quality, or for political reasons in the case of projects that are funded with public funds or that rely on unionized labor. On many of these projects there may be no legal “Buy America” restrictions, and in some cases there may be no explicit customer specification stipulating domestic only. But the reality is that these orders go to the domestic industry, not imports. And among end-users who will purchase imports, many prefer imports from Korea or Taiwan because of their more established record for quality.

19. In the past few months, nickel prices have stabilized and we have seen some growth in the non-oil and gas sectors. These trends are relatively strong and it is important to remember that this is a very mature market for these products so absent another oil and gas crisis, demand tends to be quite stable. Pricing tends to be volatile because U.S. producers simply cannot control nickel prices and with a surcharge mechanism every change is instantly transmitted in the most transparent means possible.

20. Thank you.