

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
WELDED LARGE DIAMETER LINE) Investigation Nos.:
) 731-TA-919 and 920 (Review)
PIPE FROM JAPAN AND MEXICO)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
) Investigation Nos.:
WELDED LARGE DIAMETER LINE) 731-TA-919 and 920 (Review
PIPE FROM JAPAN AND MEXICO)

Wednesday,
July 25, 2007

Room No. 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to notice, at
9:30 a.m., before the Commissioners of the United States
International Trade Commission, the Honorable DANIEL R.
PEARSON, Chairman, presiding.

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On behalf of the International Trade Commission:

Commissioners:

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SHARA L. ARANOFF, VICE CHAIRMAN
DEANNA TANNER OKUN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
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 ADRIANA DIAZ, Director of International Assistance
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In Support of Continuation of Antidumping Duty Orders:

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 Berg Steel Pipe Corporation; Dura-Bond Pipe, LLC;
 Oregon Steel Mills; and Stupp Corporation:

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1 P R O C E E D I N G S

2 (9:30 a.m.)

3 CHAIRMAN PEARSON: Good morning. On behalf
4 of the U.S. International Trade Commission I welcome
5 you to this hearing on Investigation Nos. 731-TA-919
6 and 920 (Review) involving Welded Large Diameter Line
7 Pipe From Japan and Mexico.

8 The purpose of these five-year review
9 investigations is to determine whether revocation of
10 the antidumping duty orders covering welded large
11 diameter line pipe from Japan and Mexico would be
12 likely to lead to continuance or recurrence of
13 material injury to an industry in the United States
14 within a reasonably foreseeable time.

15 Notices of investigation for this hearing,
16 lists of witnesses and transcript order forms are
17 available at the public distribution table. I
18 understand that parties are aware of the time
19 allocations. Please address any questions concerning
20 the time allocations to the Secretary.

21 Parties are reminded to give any prepared
22 testimony to the Secretary. Please do not place
23 testimony directly on the public distribution table.
24 All witnesses must be sworn in by the Secretary before
25 presenting testimony.

1 Finally, if you will be submitting documents
2 that contain information you wish classified as
3 business confidential your requests should comply with
4 Commission Rule 201.6.

5 Mr. Secretary, are there any preliminary
6 matters?

7 MR. BISHOP: No, Mr. Chairman.

8 CHAIRMAN PEARSON: Very well. Will you
9 please announce our embassy witnesses?

10 MR. BISHOP: Our embassy witnesses this
11 morning are on behalf of the Embassy of Mexico,
12 Salvador Behar, Legal Counsel for International Trade,
13 and Adriana Diaz, Director of International Assistance
14 for Mexican Exporters at the Unit for International
15 Trade Practices, Ministry of Economy.

16 CHAIRMAN PEARSON: Welcome to both of you.
17 Please proceed.

18 MR. BEHAR: Thank you, Mr. Chairman and
19 members of the Commission. For the record, my name is
20 Salvador Behar. I serve as the legal counsel for
21 International Trade at the Embassy of Mexico.

22 As such, I have an intimate involvement in
23 antidumping and countervailing duty investigations
24 conducted in the U.S. against Mexican producers while
25 I enhance the cooperation and coordination framework

1 among government authorities and industries from both
2 countries.

3 I appreciate this opportunity to share with
4 the Commission the conditions of competition
5 underlying these mutual benefits as a result of the
6 NAFTA implementation in 1994 which helps to explain
7 why it is not likely that the Commission requested
8 revocation for the U.S. order on large diameter welded
9 line pipe from Mexico would cause any harm to the U.S.
10 industry.

11 As you all know and you may have already
12 heard a lot of times, the North American Free Trade
13 Agreement was implemented in 1994 to extend the
14 benefits of free trade between the U.S., Mexico and
15 Canada. Since then, the volume of trade between the
16 U.S. and Mexico has increased 146 percent,
17 approximately \$410 billion in 2005, and U.S. exports
18 to Mexico have doubled.

19 In addition, our two economies are
20 increasingly integrated one with another through
21 complementary trade partners and interests. All
22 reliable forecasts indicate that demand for large
23 diameter welded line pipe, the subject merchandise, in
24 Mexico will continue to increase.

25 GDP growth in Mexico is expected to surpass

1 4 percent this year. Growth in key sectors that
2 consume the subject merchandise will also continue.
3 Like in the U.S., Petróleos Mexicanos, our state-owned
4 oil company, Comisión Federal d'Electricidad, our
5 state-owned electric power company, Comisión Nacional
6 del Agua, our national water commission, and local
7 states' future acquisition are undertaking large
8 projects to expand oil and gas, electric and water
9 facilities throughout the country with the new
10 pipelines and rigs, both of which consume large
11 amounts of the subject merchandise.

12 All of these are expected to increase demand
13 in Mexico by an annual rate of at least seven percent
14 in the coming years. With home market demand
15 continuing to increase, Mexico is not likely to become
16 a significant exporter of large diameter welded line
17 pipe.

18 I am convinced that the Mexican market is
19 and will maintain strong. Domestic consumption has
20 essentially increased within the past year due to the
21 fact of the price of oil and gas might be sustained in
22 the reasonably foreseeable future as to maintain high
23 levels of domestic demand.

24 Furthermore, Mexican producers of the
25 subject merchandise besides this investigation in the

1 U.S. do not face any other antidumping duty
2 investigation against their exports.

3 NAFTA integration is also illustrated by
4 increasing cooperation among NAFTA governments and
5 industry bodies. Through various organizations, NAFTA
6 governments and industries have adopted the goal of a
7 single North American steel industry.

8 Just recently, the North American
9 Competitive Council was created by mandataries of the
10 NAFTA parties to strengthen the North American
11 manufacturing base, including steel, through further
12 integration. Also, the North American Steel Trade
13 Committee embraced a policy of mutually reinforced
14 growth and competitiveness through inter-NAFTA trade.

15 Just recently, in February 2007, the NACC
16 issued a series of recommendations to the NAFTA
17 leaders where energy integration was fully considered.
18 The objective of the Energy Section, and I quote,
19 includes:

20 "Recommendations for trilateral action that
21 focus on enhancing the security and energy supply
22 through effective integration of cross-border energy
23 distribution systems, development of human resources,
24 both skilled trades and degreed professionals, in the
25 energy field, joint development of efficient and clean

1 energy technologies and further cooperation among
2 public and private stakeholders and experts in the
3 sector. This section also includes recommendations
4 that will accelerate Mexico's development of its
5 energy resources."

6 The Commission should please make a
7 determination as to Mexico with these consequential
8 market conditions in mind. Specifically, revocation
9 of the Mexican order will not be likely to cause any
10 harm to the U.S. industry.

11 The Commission reached a totally analogous
12 conclusion when it revoked the antidumping duty orders
13 on Light Welded Rectangular Tubing in 2002, Cut-To-
14 Length Plate From Mexico in 2002 and 2006, Seamless
15 Steel Pipe in 2006 and Oil Country Tubular Goods in
16 2007.

17 With this I appreciate the attention of the
18 Commission, and I pass the voice to my colleague.
19 Thank you very much.

20 MS. DIAZ: Good morning, Mr. Chairman and
21 members of the Commission. My name is Adriana Diaz.
22 I am the Director of International Assistance of the
23 Unit of International Trade Practices in Mexico's
24 Secretary of Economy.

25 Among other duties, I am responsible for

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1 monitoring trade barriers abroad concerning the
2 potential adverse effects on Mexico's industries,
3 including the steel industry.

4 First of all, I want to continue with Mr.
5 Salvador Behar's ideas remarking that both the United
6 States and the Mexican economies have strongly
7 benefitted from the free trade implemented through the
8 North American Free Trade Agreement since 1994. We
9 are important commercial partners, and our economies
10 have integrated with one another so it is in the best
11 of both countries' interests to continue to work for
12 freer trade.

13 I am somewhat familiar with the product you
14 are considering and the Mexican industries that make
15 it. During an antidumping investigation we conducted
16 a few years ago in Mexico I found it interesting to
17 address that nowadays, as in the past, Tuberia Laguna
18 and Tuberias Procarsa are not part of the relevant
19 domestic industry because they produce six to 24 inch
20 pipe, and thus their product line overlaps only
21 slightly with the product definition.

22 Furthermore, Tubacero produces primarily the
23 subject product range. I understand that Mr. Alfonso
24 Benitez of Tubacero will be appearing later in the
25 proceeding to discuss his company's experience.

1 There used to be another Mexican producer
2 whose product line was focused on large diameter line
3 pipe. At the time of the original investigation in
4 your case, most of the Mexican imports of large
5 diameter line pipe came from Productora Mexicana de
6 Tuberia.

7 Even with imports from this company, the
8 total Mexican imports during the period of
9 investigation were almost negligible according to
10 Article 5.8 of the agreement on implementation of
11 Article 6 of the general agreement on tariffs and
12 trade, 1994.

13 In other words, without the imports from PMT
14 there would have been no antidumping order on imports
15 from Mexico. Significantly, PMT was liquidated in
16 2002, and its production capacity was shifted to Saudi
17 Arabia. The only producers who remain are those whose
18 exports were negligible at the time of the original
19 investigation.

20 More generally, the departure of PMT has
21 resulted in a substantial reduction in the overall
22 production capacity of the Mexican industry. We
23 believe that your figures may not show this trend
24 because the current statistics do not include the
25 discontinued capacity of PMT, and your old figures did

1 not include the production capacity of the three
2 companies who are now participating in this review.

3 The trends are clear. The elimination of a
4 substantial portion of the Mexican industry's
5 production capacity makes it highly unlikely that
6 imports from Mexico would in the future cause any
7 injury to the U.S. steel industry. At the same time,
8 the trends in the U.S. and Mexican markets are very
9 positive.

10 The Commission has the knowledge that the
11 demand and prices for oil and gas strongly affect the
12 conditions of the large diameter line pipe market.
13 The current worldwide conditions of the oil and gas
14 markets with a strong and increasing demand and high
15 prices have brought along a strong demand for all
16 sizes of line pipe, including large diameter line
17 pipe.

18 This condition has certainly affected
19 Mexico. The internal Mexican demand for large
20 diameter line pipe has grown as Pemex, our national
21 oil company, has expanded exploration and begun to
22 refurbish existing pipelines. The future of Pemex's
23 investment projects will demand more than 55,000 tons
24 of the subject merchandise.

25 Also, these trends are expected to increase

1 for the reasonably foreseeable future. Indeed, we
2 have been told by industry participants that the
3 current conditions in the Mexican market are the best
4 industry observers have seen for several decades.

5 A similar effect can be observed in the
6 United States. Demand for line pipe in the U.S.
7 market is strong as new pipeline projects are
8 unveiled. In response, U.S. producers are investing
9 significant sums in new production facilities. This
10 is a marked change from the original investigation
11 period when oil and gas prices were low, exploration
12 was anemic and demand for new pipelines was virtually
13 nonexistent.

14 The conditions that may have justified the
15 imposition of antidumping duties no longer exist.
16 Under current market conditions it is hard to see how
17 revocation of the U.S. orders on large diameter line
18 pipe from Mexico could have any adverse impact on the
19 U.S. mills.

20 On the other hand, it does seem likely that
21 continuation of the order may have an adverse effect
22 on the role of NAFTA in the industry. We have been
23 working in the North American Steel Trade Committee
24 with the government and the steel industries in order
25 to improve efforts to reduce irritants and

1 misunderstandings that may disrupt opportunities for
2 cooperation.

3 I think we can all agree that both Mexico
4 and the U.S. are better served by such a cooperative
5 approach, especially in a case such as this where the
6 regional order was imposed because of the actions of a
7 company that no longer exists. It makes no sense to
8 continue to restrict trade.

9 Thank you. I am glad to answer any
10 questions from the Commissioners.

11 CHAIRMAN PEARSON: Thank you. Are there any
12 questions for the witnesses from the Government of
13 Mexico? Yes, Commissioner Okun?

14 COMMISSIONER OKUN: Thank you, Mr. Chairman,
15 and thank you, Mr. Behar and Ms. Diaz, for appearing
16 today and for your testimony.

17 Each of you in your testimony mentioned
18 demand for the product in Mexico. For posthearing,
19 could you submit either if there are government
20 documents or other information that could back up
21 those demand statistics for the posthearing brief or
22 posthearing submission?

23 MR. BEHAR: Yes, Mrs. Okun. Certainly. We
24 have been contacting one of the companies, a state-
25 owned company, Pemex, and we would be glad to submit

1 some of their forecasts that they have for demand in
2 the following three years I believe they are.

3 COMMISSIONER OKUN: Okay. I appreciate that
4 very much.

5 Thank you, Mr. Chairman. I have no further
6 questions.

7 CHAIRMAN PEARSON: Okay. Any other
8 questions?

9 (No response.)

10 CHAIRMAN PEARSON: Okay. Well, then I would
11 just like to express my appreciation for your
12 testimony.

13 The U.S.-Mexico economic relationship is
14 very large, very important. It occasionally has a few
15 snags in it, but it's mostly a very positive
16 relationship, and we appreciate the attention that
17 your government is paying to this investigation.
18 Thank you very much.

19 Okay. We can move now to the opening
20 remarks.

21 MR. BISHOP: Opening remarks on behalf of
22 those in support of continuation of the orders will be
23 by Roger B. Schagrín, Schagrín Associates.

24 CHAIRMAN PEARSON: Welcome, Mr. Schagrín.
25 Are you walking with a limp this morning?

1 MR. SCHAGRIN: No. I'm just getting old.
2 Good morning, Chairman Pearson, members of the
3 Commission. For the record, I am Roger Schagrin of
4 Schagrin Associates, and we are counsel to five of the
5 domestic producers of this industry representing the
6 overwhelming majority of the U.S. production.

7 In general, notwithstanding very effective
8 existing relief from dumped imports from Japan and
9 Mexico, five of the six years of this period of review
10 were pretty dismal for this industry. In the middle
11 years of the POR, consumption just plummeted. In
12 2006, consumption has rebounded to a level that was
13 nevertheless far below 2001, and domestic shipments
14 remained far below the levels of 1998 and 1999.

15 During the POR, the domestic industry
16 experienced plant shutdowns, extended closures and
17 miserable operating rates. They eked out one year of
18 decent profits in 2006, but averaged only four percent
19 operating margins over the POR.

20 This is not a booming market. This is not
21 the OCTG sunset review where consumption had tripled
22 between the POI and the end of the POR and domestic
23 shipments had more than doubled during that time
24 period. This industry does not have three years of
25 profits of over 20 percent margins. In fact, for this

1 industry that would be a pipe dream.

2 Unfortunately, in reality the Mexican and
3 Japanese industries have the ability to pour hundreds
4 of thousands of tons of LDLP into the U.S. market,
5 more than during the original POI.

6 To be diplomatic at this point in the
7 proceeding, Japanese claims of full capacity
8 utilization are simply not credible. Their production
9 and exports fell by 400,000 tons in the last two years
10 at exactly the same time that the Chinese market
11 disappeared as an export market for them. Those
12 400,000 tons or more are ready to come to the U.S. as
13 soon as they can win big bids by offering dumped
14 prices.

15 As INGAA's own consulting report explains,
16 economic logic dictates that it is the supply and
17 demand for natural gas, not the prices of LDLP, which
18 will dictate pipeline demand. Domestic gas production
19 is down in the United States. Demand for gas has
20 fallen, and the expectations of lots of new LNG
21 terminals being built and coming on line soon are
22 still years away.

23 So after a couple of years of catching up
24 for lost time, the expectation is that within a short
25 period of time demand is going to return to historical

1 averages. Planning a pipeline or filing an
2 application with the FERC is not the same as building
3 a pipeline.

4 The Commission should ask INGAA witnesses
5 this afternoon about their own major concerns limiting
6 pipeline construction in the United States, a dire
7 shortage of pipeline contractors with qualified
8 employees to build pipelines and a major shortage of
9 rail cars that can carry the 80 foot lengths of pipe
10 that the pipeline companies want supplied to them, be
11 it domestic pipe or imported pipe. These external
12 limitations on the growth and demand make the domestic
13 industry more vulnerable to subject imports.

14 Now, before we spend the rest of the day,
15 particularly this afternoon, with our heads in the
16 clouds, let us focus again on the facts in this case.
17 The Mexican and Japanese industries can increase
18 production and exports to the U.S. market. U.S.
19 demand will not increase enough to absorb this
20 increased supply. This dumped supply will cause price
21 depression in both the bid process for major projects
22 and for sales to distributors.

23 The adverse impact on the industry will be
24 lost production and shipments, decreased employment,
25 plant closures and an inability to obtain a return on

1 investments in new plants.

2 That is why we respectfully ask this
3 Commission to continue these two antidumping orders.
4 Thank you.

5 MR. BISHOP: Opening remarks on behalf of
6 those in opposition to continuation of the orders will
7 be by Robert H. Huey, Hunton & Williams.

8 CHAIRMAN PEARSON: Good morning, Mr. Huey.
9 Welcome to the Commission.

10 MR. HUEY: Thank you. Good morning, Mr.
11 Chairman, members of the Commission.

12 The data in this case show the impressive
13 performance of the domestic large diameter line pipe
14 industry. First, the domestic industry made more
15 money in 2006 on an absolute and percentage basis than
16 in any year since 1998. On a per ton basis, the
17 profit is even more impressive -- \$126.91 per ton,
18 double the profit for 1999 -- the industry's second
19 best year since 1998.

20 Second, over the period of review the
21 domestic industry has doubled its prices. Costs have
22 also increased due mainly to increases in plate costs.
23 The data do not show any cost/price squeeze. To the
24 contrary, the domestic industry increased its prices
25 faster than its costs.

1 Now, you may ask how could they do this;
2 raise prices and profits despite increasing cost and
3 increasing nonsubject imports. Demand is booming,
4 driven by numerous large pipeline projects. The fact
5 is reflected in the domestic industry's actions and
6 statements to the public, in stark contrast to the
7 dire picture they paint for the Commission.

8 The purchasers who are here today will tell
9 you the domestic mills turn away customers, place them
10 on allocation and stretch lead times. The domestic
11 mills' own order book data contradict their claims of
12 excess capacity.

13 In addition, third country imports are up
14 dramatically, another indication that U.S. demand has
15 outstripped supply. Just one example. Oregon Steel
16 Mill's Canadian subsidiary is exporting significant
17 quantities of large diameter line pipe to the United
18 States we believe to fulfill Kinder Morgan's Rockies
19 Express project.

20 Another fact. The domestic mills are
21 building four new spiral weld pipe mills. That is
22 more proof that U.S. demand is outstripping supply.
23 The domestic mills want the Commission to ignore the
24 mountain of objective indicators showing massive
25 demand and insufficient supply.

1 They want the Commission to believe that
2 they're running at only 42 percent capacity
3 utilization and have the audacity to question the
4 Japanese mills' figures showing that the Japanese
5 mills are operating at full capacity.

6 The domestic mills are arguing that the
7 Japanese mills' capacity numbers are suspect because
8 their capacity varies significantly from year to year.
9 We're surprised by the claim. The domestic mills know
10 well that a large diameter mill's potential output in
11 tonnage varies significantly based on the outer
12 diameter and the wall thickness of each piece of pipe.

13 Both the Japanese and domestic mills make a
14 full product line, and pipe size can vary
15 significantly from project to project. An accurate
16 capacity measurement must consider product mix and
17 must vary from year to year based on the product mix.
18 The Commission should be very skeptical of any
19 capacity figures that are fixed over a long period of
20 time and expect that accurate capacity figures would
21 vary from year to year.

22 The Commission should also be skeptical of
23 the domestic mills' claims regarding demand. The
24 economic report submitted by Petitioners is riddled
25 with glaring errors, including claims that pipeline

1 construction cannot go faster than demand for the gas
2 or high gas prices do not necessarily translate into
3 increased pipeline construction, especially since high
4 prices tend to discourage consumption of natural gas.

5 First, these claims ignore the fact that
6 pipeline construction is not only driven by increasing
7 consumption of natural gas, but by changes in the
8 sources of the gas and where it will be consumed.
9 That must be transported. Second, they must replace
10 older, damaged pipes.

11 Second, despite the fact that increased
12 natural gas prices encourage conservation, the basic
13 fact is overall U.S. natural gas demand is still
14 growing steadily despite the high prices.

15 Another error is Petitioners claimed that
16 the large MacKenzie Gas Pipeline project has been
17 canceled. We can debate whether the project has been
18 canceled, postponed, delayed, but the fact of the
19 matter is this debate is irrelevant to the demand
20 projections because of the time horizons.

21 As Petitioners' economist admits in the
22 report, the bulge in pipeline construction from
23 MacKenzie was projected only beginning in 2012, which
24 is beyond the horizon of the investigation, the
25 reasonably foreseeable future that the Commission

1 examines. There is nothing to deduct from any of the
2 forecasts because the forecasts to begin with never
3 included the MacKenzie project in the time period
4 through 2009.

5 Finally, Petitioners' economist report
6 relies heavily on a one and a half year old Jacobs
7 Consultancy study. INGAA has put it on the public
8 record in anticipation that the Petitioners would try
9 to use this report to diminish demand projections.
10 The Petitioners misinterpret the Jacobs report.

11 INGAA representatives will explain to you in
12 detail why that report, while accurate with respect to
13 demand, is inaccurate with respect to supply.

14 We thank you very much. We think the data
15 requires that this Commission allow the order to
16 terminate. Thank you very much.

17 CHAIRMAN PEARSON: Thank you, Mr. Huey.

18 We turn now to the domestic industry panel.

19 MR. BISHOP: Will the first panel, those in
20 support of continuation of the orders, please come
21 forward and be seated?

22 Mr. Chairman, all witnesses have been sworn.

23 (Witnesses sworn.)

24 CHAIRMAN PEARSON: Welcome, panel. Mr.
25 Schagrin, you're running the show, I trust?

1 MR. SCHAGRIN: I think so today, Mr.
2 Chairman.

3 CHAIRMAN PEARSON: Okay. Please proceed.

4 MR. SCHAGRIN: Thank you again, Mr.
5 Chairman, members of the Commission. We are very
6 pleased today to have a panel of industry executives
7 who we calculated last night have well over 325 years
8 of experience in this industry.

9 I think this really shows two things. One,
10 maybe because of the poor performance over the past
11 several years maybe this segment of the industry is
12 not attracting a lot of fresh, new, younger executive
13 talent, but most importantly for the Commission today
14 is I am quite confident that the executives who
15 represent virtually almost all the production in this
16 industry will be able to answer all of your questions
17 and really lay out a strong, factual record and
18 understanding by the Commission of what is going on in
19 this case because this particular review is very, very
20 fact oriented.

21 This is not a very legal oriented review and
22 so these executives are really going to run the show
23 today. This is not a lawyers' show. This is an
24 industry executives' show.

25 With that, I'd like to ask Mr. David Delie,

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1 the president and CEO of Berg Steel Pipe, to present
2 his testimony.

3 MR. DELIE: Good morning, Chairman Pearson
4 and members of the Commission. For the record, my
5 name is Dave Delie. I am president and CEO of Berg
6 Steel Pipe. I have been with Berg for nine years, and
7 I have 30 years' experience in the steel industry.

8 I am joined by Ron Williamson, our vice
9 president of Sales and Logistics. Ron has been with
10 the company for 27 years.

11 As you will hear from many witnesses today
12 and as is apparent from the information in your staff
13 report, the large diameter line pipe business is a
14 very cyclical business. As Chuck Bradford, one of the
15 top industry financial analysts, said recently,
16 usually you have two good years out of seven. This
17 cycle maybe they have three or four. I hope he is
18 right and we get another one or two good years out of
19 this cycle.

20 Between 2001 and 2004, demand for line pipe
21 for new pipeline projects was abysmal. This is
22 directly related to the Enron effect as a number of
23 pipeline companies had to fix their balance sheets
24 after big losses in energy trading, amongst other
25 things.

1 The pipelines held by Enron, previously the
2 largest pipeline operated in the world, sold off into
3 pieces during its bankruptcy liquidation. Not until
4 2005 have the companies began catching up with
5 underlying demand. At Berg we survived this downturn
6 principally because the dumping orders on Mexico and
7 Japan prevented dumped imports from flooding a weak
8 market.

9 Now let me turn to the present and
10 foreseeable future. Berg didn't operate in 2006 at
11 full capacity utilization, and we have not operated in
12 2007 at full capacity utilization.

13 When another U.S. producer fell behind on a
14 major contract order they asked us to make 50,000 tons
15 on a subcontract basis for them, and we were able to
16 handle the additional tons with normal scheduling.
17 This is not an indication of an overbooked industry.

18 We are building a new spiral weld mill in
19 Mobile, Alabama. The cost will be approximately \$80
20 million. This location, like our present mill in
21 Panama City, Florida, is near the water. We are
22 within a few miles of the IPSCO Mobile plant and a
23 short distance from Nucor's Tuscaloosa plant. We will
24 also be able to source coils from other U.S. and
25 foreign mills.

1 I am sure the Commission will ask today
2 whether our decision and that of other companies to
3 build spiral weld mills is a sign of surging future
4 demand. I can only speak for Berg and not the other
5 mills.

6 In our case, the spiral weld mill is being
7 built for two reasons. One, we can source hot-rolled
8 coil, the input for the spiral weld mill, at lower
9 prices than plate. We can also provide 80 foot
10 lengths instead of welding two 40 foot pipes together.

11 Two, we see the large diameter line pipe
12 market in the future moving more to a demand for
13 higher grade and lighter walled products which will be
14 easier met with the spiral weld mill.

15 Our new mill will be operational in the
16 third quarter of 2008. We will be taking orders for
17 that mill in the first quarter. I am here to tell you
18 that without any doubt if you open up the market to
19 large quantities of dumped imports from Japan and
20 Mexico Berg will not be able to get a return on our
21 new mill, nor will we be able to properly operate our
22 existing mill. We will not be able to expand
23 employment in Mobile or maintain employment in Panama
24 City.

25 I know the INGAA members. We are a major

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1 member of the INGAA foundation. None of these INGAA
2 members are our customers. Unfortunately, INGAA's
3 interests do not seem to be in their foundation
4 members doing well or they would not oppose the
5 continuation of these orders.

6 They are interested in getting more bidders
7 for their projects to force prices down. We believe
8 the law should not allow convicted dumpers to be the
9 bidders who force prices down.

10 On behalf of our employees, we ask you to
11 continue these orders. Thank you.

12 MR. LAWRENCE: Good morning, Chairman
13 Pearson and members of the Commission. For the
14 record, my name is Larry Lawrence, and I am the vice
15 president of Tubular Product Sales for Evraz Oregon
16 Steel Mills.

17 I've been employed in the American steel
18 industry since 1969, over 38 years. I've been in
19 management and/or executive positions in large
20 diameter sales and operations since 1984.

21 In July of 2004, our company permanently
22 shut down a large diameter pipe operation in Napa,
23 California, for a number of reasons. At the time,
24 forecasts for the future indicated that there was very
25 little market demand for major greenfield transmission

1 projects and only a small amount of distribution sales
2 opportunities that were primarily designated for
3 maintenance and repair activities.

4 Additionally, the location of our facility
5 had high inland freight costs for cut-to-length steel
6 plate from our Portland facility, our steel mill in
7 Portland, Oregon, also from domestic suppliers and
8 foreign import plate.

9 We were also in a location where the value
10 of the real estate in Napa, California, exceeded the
11 value of the buildings and equipment. These factors
12 combined caused us to conclude that we should
13 discontinue pipe making operations at that location.

14 We believed, however, that with the more
15 technologically advanced and cost effective pipe
16 making facility in Portland, Oregon, we could more
17 effectively and profitably contribute to the future of
18 pipeline energy infrastructure in North America.

19 In late 2006 we began operations of a new
20 spiral weld mill in Portland, along with an OD coating
21 and an ID lining facility which is adjacent to our
22 Oregon Steel Mills stucco plate rolling facility there
23 in Portland, Oregon.

24 Currently we have approximately 180,000 to
25 185,000 of annual capacity or less than half of what

1 we had in our former plant in Napa, California. At
2 this new pipe facility we primarily source our coil
3 plate substrate from the adjacent Oregon Steel Mill's
4 rolling operations. There are no freight costs.

5 Before the new mill was ever started, we had
6 a contract to supply hundreds of thousands of tons of
7 large diameter line pipe for Kinder Morgan's Rocky
8 Mountain Express Pipeline, which was to be supplied
9 from both our Camros pipe facility in Alberta, Canada,
10 as well as our Portland, Oregon, facility that we had
11 just commissioned. This clearly shows the
12 interchangeability and acceptability of spiral weld
13 and UOE line pipe as we are producing the same grade
14 and OD in two different mills.

15 The Rocky Mountain Express Pipeline is
16 currently the largest transmission project under
17 construction in the United States since the Alliance
18 Pipeline project in the 1999-2000 timeframe in which
19 four different U.S. and Canadian pipe mills share the
20 supply contract.

21 The Rockies Express project is being
22 produced by two U.S. and two foreign pipe mills.
23 Unfortunately for us, the initial ramp up for our new
24 mill in Portland fell behind our production schedule
25 in the early going. To maintain the schedule we

1 subcontracted some of the delinquent production
2 tonnage to another U.S. pipe mill, which I think you
3 heard about earlier.

4 We believe that any of the three other pipe
5 mills in the United States could have made similar
6 tons for us at that time. In 2007, we believe that we
7 are the only pipe mill in the United States that is
8 completely booked out to our rated capacity.

9 Our order for the Rocky Mountain Express
10 project is scheduled for completion sometime in mid
11 2008. Accordingly, we are actively bidding for new
12 project work for the second half of 2008 and beyond.
13 It is essential that we do not have to compete against
14 unfairly traded imports from Japan and Mexico for
15 those future project opportunities.

16 Currently we are seeing active quotations
17 for large diameter pipeline projects in the U.S.
18 futures market from major U.S. mills, as well as from
19 China, India, Korea, Greece, Brazil, United Kingdom
20 and others. One of the largest futures projects that
21 most industry analysts expected would keep North
22 American mills busy for the next two to three years
23 was the MacKenzie Gas Pipeline project, which has now
24 been postponed.

25 While I expect the future market demand to

1 be reasonably stable for other transmission projects,
2 I can foresee, based on my industry experience, a
3 major oversupply situation if all of the current plant
4 capacity expansions for large diameter pipe are built
5 in the United States as planned and commissioned in
6 other regions of the world as planned and constructed.

7 Adding large amounts of Japanese and Mexican
8 volume at dumped prices to an already sufficiently and
9 perhaps oversupplied futures market will be disastrous
10 for the entire U.S. industry.

11 As you know, there are many new pipeline
12 projects in North America that have been publicly
13 announced pending their numerous regulatory and
14 financial hurdles, as well as their commercial
15 hurdles. It's my experience that there are always
16 several competing pipeline proposals for these natural
17 gas and oil markets, but usually only one will be
18 economically viable and will ultimately prevail.
19 Typically when one project moves ahead others are
20 canceled, and we don't know with certainty which
21 projects will move ahead and how many may be canceled
22 and/or postponed.

23 Our parent company, Evraz Group, S.A., is a
24 Russian company. Thus, we are aware of the millions
25 of tons of new large diameter pipeline transmission

1 infrastructure that is presently being added in
2 Russia, other CIS countries, the Middle East and
3 China.

4 New, state-of-the-art large diameter pipe
5 mills are also being constructed in these regions.
6 Once these regions become self-sufficient we believe
7 that the government-owned oil and gas companies are
8 very likely to prefer national suppliers over Japanese
9 imports who are currently prominent in those areas.

10 For new pipeline projects, as a matter of
11 policy we believe that local indigenous pipe producers
12 will be chosen over the Japanese. If the order is
13 lifted, I believe the Japanese mills will bid
14 aggressively on Western Rocky Mountain and other U.S.
15 pipeline projects exactly as they did before these
16 orders were put in place.

17 If the dumping orders are revoked, unfairly
18 traded import competition will cause a recurrence of
19 injury to Evraz Oregon Steel Mills and its employees
20 producing large diameter pipe.

21 I thank you for your time and opportunity to
22 present this information this morning.

23 MR. SCHAGRIN: Thank you, Mr. Lawrence.

24 Mr. Jason Norris, please?

25 MR. JASON NORRIS: Good morning, Chairman

1 Pearson and members of the Commission. For the
2 record, my name is Jason Norris. I'm the vice
3 president of Sales of Dura-Bond Pipe, LLC. I am
4 accompanied by Mr. Wayne Norris, who is the company's
5 president.

6 Dura-Bond has been in the pipe coating and
7 tubular business for 45 years. We have coating
8 operations in McKeesport, Pennsylvania, adjacent to
9 the U.S. Steel pipe mill, and we also have coating
10 operations in Steelton, Pennsylvania, adjacent to our
11 own pipe mill.

12 During the Bethlehem Steel bankruptcy
13 proceedings which began in 2001, we purchased the
14 Steelton UOE large diameter pipe mill in 2003 with an
15 annual potential capacity of 300,000 tons and a size
16 range of 24 to 42 inches. When we purchased the
17 facility it had already been shut down. We had to
18 invest millions of dollars and hire a new workforce.
19 We have the United Steelworkers as the union for our
20 workforce.

21 In 2005 and 2006 we were able to secure
22 orders for approximately 60,000 tons of pipe, which we
23 successfully produced. We think we have demonstrated
24 to the marketplace that we are a reliable supplier of
25 large diameter line pipe for pipelines. We have

1 plenty of capacity to produce much more volume on our
2 mill. It is a severely underutilized asset.

3 The Steelton mill that Dura-Bond purchased
4 is a good mill with good employees. It made hundreds
5 of thousands of tons of pipe as recently as the late
6 1990s. We would like to return the mill to its glory
7 days through significant reinvestment. That takes
8 orders and steady operations and a fair marketplace.

9 With the prospect of continuing demand in
10 the U.S. market, this should be our time to shine.
11 However, if you let large quantities of dumped imports
12 from Japan and Mexico back into the United States you
13 will essentially be issuing an order to shut down the
14 Steelton mill permanently and to eliminate 350 jobs in
15 an area of Pennsylvania that has already suffered
16 major economic devastation through the bankruptcy of
17 Bethlehem Steel.

18 On behalf of our employees and ourselves, we
19 ask you to continue these orders. Thank you.

20 MR. SCHAGRIN: Mr. Stupp?

21 MR. STUPP: Good morning, Chairman Pearson
22 and members of the Commission. For the record, my
23 name is John Stupp, and I'm president of Stupp
24 Brothers, Inc., the parent company of Stupp
25 Corporation, our large diameter line pipe producer

1 located in Baton Rouge, Louisiana.

2 Following a stint in the U.S. Army, I've
3 been in this industry for my entire working career of
4 over 34 years. I am accompanied by Don Bohach, our
5 vice president of Marketing and Sales, who has been in
6 the steel and pipe industry for over 40 years. He is
7 located in our Houston office where most of our line
8 pipe customers are headquartered.

9 Stupp celebrated its 150th anniversary last
10 year, and I am the fifth generation of the Stupps to
11 run our business. Our operation in Baton Rouge has
12 been there for 55 years, but in many ways it is less
13 than 10 years old because we invested \$40 million in
14 the late 1990s to completely revamp our mill.

15 Believe it or not, we are just now beginning
16 to get a return on that investment. One factor of
17 that is because in the last 1990s in a period of good
18 demand we were hurt by the dumping of Mexican and
19 Japanese pipe.

20 In the first half of this decade, demand was
21 just horrible. Now that demand is improving, I do not
22 want to see our ability to obtain a return on our
23 investment undermined again by a renewed surge of
24 dumped Mexican and Japanese line pipe imports.

25 It is important that the Commission

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1 understand that our current backlog does not reflect a
2 lack of capacity. In our industry, annual production
3 levels can change in big chunks. Right now we are
4 operating our Baton Rouge pipe mill with one shift of
5 workers working five 10-hour days. All the workers
6 are getting at least 10 hours a week of overtime.

7 If we added another shift of workers, about
8 40 to 50 new employees, and utilized both shifts at 40
9 hours per week we would increase our capacity
10 utilization on the mill by 60 percent from 50 hours to
11 80 hours, which in the case of a mill our size means
12 adding at least an additional 150,000 tons of
13 production. It would be Don Bohach's responsibility
14 to sell that additional 150,000 tons at profitable
15 prices.

16 Could Stupp Corporation find 40 to 50
17 additional qualified USW employees in Baton Rouge at
18 wages up to \$20 an hour? You bet we could. However,
19 Stupp Corporation cannot afford to spend the money to
20 hire and train those employees and bring our
21 production up if six months later because of either a
22 decline in demand or an increase in dumped import
23 supply we were not able to continue to operate the two
24 shifts.

25 If that were the case, we would then have

1 all the severance costs of laying off that new shift
2 of workers. I can tell you that bringing on a new
3 group of employees makes no sense unless we can keep
4 them for at least two years.

5 The bottom line is that Stupp has plenty of
6 capacity to supply the needs of INGAA members. Like
7 some of the other producers, Stupp Corporation was an
8 early member of the INGAA foundation which started in
9 1990.

10 INGAA members don't need to buy dumped
11 Mexican or Japanese large diameter pipe in order to
12 satisfy their demands. They want to buy unfairly
13 traded, dumped Japanese and Mexican line pipe because
14 they can either buy it at lower prices than they can a
15 domestic produced product or they can use the
16 additional dumped bids in the bidding process to force
17 prices down.

18 I ask you to allow Stupp and its employees a
19 fair chance to earn a return on our investment and
20 have the opportunity to continue to run profitably, to
21 expand employment in a market that is catching up for
22 years of lost demand.

23 We would ask that you continue these orders
24 because if they are sunset we will be injured again.
25 Thank you.

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1 MR. SCHAGRIN: Thank you.

2 Mr. Noland?

3 MR. NOLAND: Good morning, Chairman Pearson
4 and members of the Commission. For the record, my
5 name is Jon Noland, and I am the division manager of
6 the American Steel Pipe Division of ACIPCO located in
7 Birmingham, Alabama.

8 I have been in the industry for 12 years,
9 and I am accompanied by Mike O'Brien, who is the vice
10 president of Sales for ACIPCO. He has 32 years of
11 service with our company.

12 As a number of you saw during the
13 Commission's visit to our facility in May, ACIPCO has
14 modern equipment and an employee work ethic and morale
15 that is second to none. This may be due in part to
16 our employee trust ownership. We were the forerunner
17 of the ESOP program as ownership was transferred from
18 our founder to our employees in the 1920s. Our
19 company is 102 years old.

20 We have made recent investments to increase
21 throughput by reducing constraints at our pipe
22 finishing operations. Basically our mill can make
23 pipe from coal faster than we can test and inspect it.
24 Through some modifications in our process and
25 redeployment of workers, we have increased our overall

1 throughput by removing bottlenecks in our processing
2 section.

3 Our company sells large diameter ERW line
4 pipe to both distributors for repair work and to
5 pipeline companies for new projects. Normally
6 distributor sales make up about 20 to 30 percent of
7 our total sales, but during 2002 to 2005 that rate was
8 much higher because the pipeline companies were
9 building fewer new projects.

10 Now our distribution has fallen as
11 nonsubject importers continue to increase their
12 volumes of this typically low grade product to the
13 U.S. This means going forward our business will be
14 more dependent on high grade pipeline project
15 business.

16 The Japanese ERW manufacturers concentrate
17 and will focus their unfair imports on that project
18 business. The Commission should be aware that the
19 Japanese ERW capacity is greater than U.S. capacity,
20 even though they have no home market.

21 At the present time, ACIPCO has a \$20
22 million investment plan to increase capacity and
23 improve quality. We would like to keep pace with our
24 clients' demands. We would add 25 employees to our
25 division.

1 I can tell you with certainty that the
2 ACIPCO board of directors will not act upon this
3 investment request until after your vote. If the vote
4 is negative, the investment proposal will probably be
5 withdrawn because we know from experience that dumped
6 imports from Japan and Mexico will make it impossible
7 to earn a return on that investment in the absence of
8 unfair trade relief.

9 At American Steel Pipe we have good people
10 working together toward common goals. We don't ask
11 the government for help. We help ourselves. However,
12 we must ask the government to give us a level playing
13 field. That is why we're asking you to continue
14 giving orders against dumped imports of large diameter
15 line pipe from Japan and from Mexico.

16 Thank you.

17 MR. NARKIN: My name is Steve Narkin, and
18 I'm with Skadden Arps. We represent United States
19 Steel Corporation and Camp Hill Corporation in these
20 proceedings.

21 I'd like to turn over the floor to Mr. Rusty
22 Fisher of U.S. Steel.

23 MR. RUSTY FISHER: Good morning. I am Rusty
24 Fisher of U.S. Steel Tubulars. As you know, U.S.
25 Steel recently acquired Lone Star Technologies, and I

1 was Lone Star's vice president of Line Pipe Products.
2 My current duties include heading up the team
3 responsible for integrating sales and marketing of
4 line pipe products of U.S. Steel and Lone Star.

5 I would like to begin by giving you a brief
6 overview of U.S. Steel's interest in this product.
7 U.S. Steel makes large diameter line pipe through an
8 agreement we have with Camp Hill Corporation.

9 U.S. Steel owns a mill in western
10 Pennsylvania that it leases to Camp Hill. Camp Hill
11 provides a service to U.S. Steel by processing hot-
12 rolled bands made into ERW line pipe. U.S. Steel
13 maintains ownership of the product throughout this
14 process. U.S. Steel has an API license to produce the
15 product to Camp Hill.

16 The U.S. Steel name and monogram are
17 stenciled on the products. U.S. Steel markets this
18 product along with a number of other welded and
19 seamless tubular products which I know the Commission
20 is familiar. Lone Star Steel has also previously
21 marketed this product on behalf of U.S. Steel.

22 U.S. Steel's capacity to make this product
23 will soon increase significantly because we have a
24 joint venture with Posco and Saylor of Korea to build a
25 new 300,000 ton facility in the San Francisco Bay

1 area. This facility will make spiral weld large
2 diameter line pipe.

3 In this public hearing I cannot discuss all
4 factors that led to the decision to proceed with this
5 investment. However, I think that two factors are
6 especially important.

7 First, the facility will enable us to
8 broaden our product line. U.S. steel currently does
9 not make welded line pipe with an outer diameter
10 greater than 20 inches.

11 As the Commission is aware, one of the
12 reasons why U.S. Steel acquired Lone Star is it wanted
13 to expand its presence in the welded line pipe market.
14 The California plant will enable us to do that,
15 although to a much lesser degree than the Lone Star
16 transaction. The Lone Star transaction did not
17 increase U.S. Steel's capacity to make this product.

18 The second reason why we are going ahead
19 with this joint venture is that, simply put, we
20 believe there's a market for this product in this
21 country. Last year about 730,000 tons of this product
22 were imported from countries other than Japan and
23 Mexico. Consequently, imports from these nonsubject
24 imports accounted for about 55 percent of U.S.
25 consumption in 2006. That is a much higher number

1 than we have historically seen.

2 This year these imports are on track to more
3 than double. Our new facility will eliminate some of
4 the need for these nonsubject imports. Other
5 investors have evidently reached the same conclusion
6 as three other mills of comparable size to our planned
7 mill in California are likely to be built soon.

8 So we are now seeing the major benefits of
9 the orders that are at issue here. As demand has
10 picked up and the industry has become profitable with
11 the help of the orders, people have become
12 sufficiently confident to invest fresh new capital in
13 this industry for the first time in a very long time.
14 This is exactly the sort of behavior that our trade
15 laws are intended to encourage.

16 I know that you're hearing that these
17 investments show that the orders are not needed
18 anymore. In fact, they show something quite
19 different. They show that the market does not need
20 dumped imports from Japan and Mexico. The market is
21 working the way it is supposed to as domestic supply
22 is rising in response to rising demand. Dumped
23 imports should not be part of that supply and demand
24 equation.

25 I understand that you're hearing producers

1 in Japan and Mexico have no interest in this market.
2 For a number of reasons you shouldn't believe that for
3 a second. They have had a very strong interest in
4 this market before the orders were imposed. Nothing
5 has changed since that time. A number of products
6 were excluded from the orders, and we believe that
7 there are sizeable quantities of these imports of
8 these products in this country, especially from Japan.

9 Moreover, if you look north across the
10 border you will see the Japanese producers have a
11 major presence in Canada. Among other things, they
12 successfully bid for the 42 inch quarter pipeline
13 being built by Kinder Morgan Canada. This is a major
14 project, a new 288 mile pipeline. It is also a major
15 piece of business for the Japanese producers.

16 It is therefore not surprising that Canada
17 imported 70,493 tons of large diameter welded pipe
18 from Japan last year and 59,580 tons just in the short
19 period between January and May of this year. Canada
20 is not a more attractive market than the U.S. market.

21 In short, the orders are serving their
22 intended purpose and I urge you to allow them to
23 continue. We, along with others, are undertaking
24 large investments in this industry. These investments
25 should not be put at risk because unfair trade is

1 allowed to come back into the market. Thank you.

2 MR. SCHAGRIN: Thank you, Mr. Fisher.

3 Now we'd like to invite Dr. Robert Blecker
4 to give you some economic analysis of the facts in
5 this investigation. Dr. Blecker?

6 MR. BLECKER: Thank you, Mr. Schagrin.

7 Good morning, Chairman Pearson and members
8 of the Commission. For the record, my name is Robert
9 Blecker. I am a Professor of Economics at American
10 University, and I am representing the domestic
11 producers in this sunset review.

12 I am pleased to be able to share my views
13 with you this morning, especially because the central
14 issues in this case seem to revolve around the two
15 most important concepts of economics; that is, supply
16 and demand.

17 The main claim of the Japanese Respondents
18 in their prehearing brief is that demand is going to
19 outstrip supply in the U.S. market in the foreseeable
20 future, or, in their more colorful terminology, there
21 is a "yawning gap between voracious U.S. demand and
22 tight supply."

23 Supposedly, if you read their analysis, no
24 one is ever going to fill this gap -- not the Japanese
25 producers who claim to have no excess capacity or

1 interest in exporting to the U.S. market, nor the U.S.
2 producers who, in spite of large increases in
3 capacity, allegedly will not be able to increase their
4 output.

5 The Respondents therefore never tell us who
6 is going to supply all the extra large diameter line
7 pipe that would be necessary for this massive number
8 of new projects that they claim are going to be built.

9 Well, this argument would not receive a
10 passing grade in Econ 101. Demand cannot just
11 continue to grow faster than supply. In equilibrium,
12 demand and supply have to be equal to each other. You
13 cannot build a pipeline for which there is no pipe, so
14 there cannot be this persistent gap between demand and
15 supply, and it is not credible if there were
16 hypothetically -- I think the legal term is *arguendo*.

17 If hypothetically there were a gap between
18 demand and supply, it is certainly not credible that a
19 major global producer like Japan or a significant
20 regional producer like Mexico would be uninterested in
21 supplying that market.

22 Now, I will show you this morning and have
23 explained in my submission that there is no shortfall
24 of supply, but I think the subject imports nonetheless
25 are likely to return to the U.S. market anyway if the

1 orders are revoked, and that is because it was the
2 antidumping orders and nothing else that severely
3 reduced the subject imports from these countries after
4 2001 and the purchasers, the INGAA members, are ready
5 to receive Japanese and Mexican bids at less than fair
6 value prices once again if those duties are removed.

7 Now, the Japanese producers claim that they
8 have very close to 100 percent capacity utilization
9 rates every year, but these claims are not credible
10 because the reported capacity levels magically go up
11 and down almost exactly in sync with actual output,
12 even when output goes up or down by several hundred
13 thousand tons a year and when there are no plant
14 openings or closures that could account for this.
15 This is true when they report their total output of
16 all pipes in these mills, as well as large diameter
17 line pipe per se.

18 Now, Mr. Huey in his opening remarks pointed
19 out that the composition of the pipes in terms of
20 their size and weight varies from year to year.
21 That's certainly correct, but what that means is that
22 when a firm calculates its capacity it has to do what
23 the domestic producers did; that is, use an average, a
24 normal composition of output to convert what the mills
25 can do into tons, which is how the Commission measures

1 capacity. I think if the Japanese producers did that
2 accurately we would not see these kind of reported
3 capacity numbers.

4 To my mind, what the Japanese Respondents
5 are doing is simply conflating the concept of
6 production and capacity, and they're saying well, we
7 only have the capacity to produce what we actually
8 produce no matter what it is, high or low.

9 It's as if a student came to me after a test
10 and said Professor Blecker, I know I only got 72
11 percent right, but given the composition of your
12 questions that was all you could have expected me to
13 answer so you should give me an A. I don't think I
14 would accept that argument.

15 Now, if you look instead at the reported
16 production levels of the Japanese producers you see
17 that their most recent output is significantly below
18 their peak levels during the period of review, and
19 since they haven't done any major plant closures we
20 know that they can increase production by several
21 hundred thousand tons a year if the orders are
22 revoked.

23 Furthermore, and they acknowledge this, the
24 Japanese producers have been virtually shut out of the
25 Chinese market in the last few years. There is

1 increasing competition in other markets due to new
2 sources of global supply in other countries and so I
3 think in this context Japanese imports would be back
4 in the U.S. market in large volumes very quickly in
5 the absence of the antidumping duties.

6 If dumped imports from the subject countries
7 are allowed back into the U.S. market they're certain
8 to be injurious because the demand for large diameter
9 line pipe is not likely to be nearly as high as the
10 Respondents' forecast in the foreseeable future.

11 It is important to emphasize that high
12 prices of oil and natural gas do not in and of
13 themselves guarantee that more pipelines will actually
14 be built or that needed repairs will actually be made.
15 The long-term growth of demand for natural gas in the
16 United States, contrary to what Mr. Huey said in the
17 introduction, is very slow.

18 I have the exact numbers in my written
19 submission and data from the Energy Information
20 Association, the official source of statistics on U.S.
21 energy consumption, are attached to that. Since 2000,
22 between 2000 and 2006, the growth was actually
23 negative. That is, there was less natural gas
24 consumption in 2006 than in 2000, and this is partly
25 of course in response to high prices.

1 Now, it is one thing to propose a pipeline
2 project or to file an application at the FERC or FERC
3 as we sometimes call it, but its another thing to
4 obtain FERC approval, to obtain other regulatory
5 approvals or to convince investors to finance a
6 project. Even FERC approval does not mean
7 construction is assured as some FERC applications are
8 duplicitous, and any projects of significance are
9 likely to face intense environmental scrutiny.

10 Given that there are often competing
11 proposals, especially for big pipeline projects in the
12 same geographic corridors, it is unlikely that all of
13 them will be built. Thus, merely adding up proposed
14 pipeline projects as some of the Respondents'
15 submissions would have you do is not a reliable way to
16 forecast demand for large diameter line pipe.

17 Already in recent months we have seen one of
18 the largest proposed pipelines in North America, the
19 Canadian MacKenzie project, postponed until at least
20 2013. Now, we maybe have some dispute over whether we
21 should say this is canceled or postponed. We
22 certainly agree I think that it's not going to happen
23 in a timeframe that the Commission could use for this
24 determination, but forecasts that include this project
25 have been put forward in the submissions of the

1 supporters of revocation as evidence of large demand
2 for large diameter line pipe.

3 In particular, in the Jacobs report there
4 are high end and low end estimates. They give a range
5 of estimates for average demand between 2006 and 2015.
6 Their high end includes both MacKenzie and the Alaska
7 Pipeline, another big project which has been discussed
8 for years and years, I think something like 30 years,
9 and does not appear to be going anywhere in the
10 foreseeable future.

11 My point was simply that we should discount
12 that high end forecast of demand, which includes those
13 two big projects, and use the lower estimate from
14 Jacobs.

15 Now, another report that was submitted on
16 behalf of the Japanese Respondents is the Preston
17 report. Although a clear source is not really given,
18 but it provides what appears to be a long list of
19 applications for FERC permits for proposed pipelines.
20 It does not give any indication of which of these
21 proposed projects are actually going forward.

22 The Preston report admits that perhaps only
23 70 percent of these projects approximately will ever
24 be built. Nevertheless, when the Preston report
25 calculates its supposedly shortfall between demand and

1 supply it uses 100 percent of those projects, not 70
2 percent. Then the report dramatically underestimates
3 the capacity of the U.S. producers, again essentially
4 saying they can't produce more than they actually do
5 to create the false impression of a supply shortfall.

6 Now, the Jacobs report, especially if you
7 use the low end estimate of demand, is one of the
8 better, more reliable reports submitted in this
9 investigation. It shows that capacity in the U.S. and
10 Canadian industries is easily capable of satisfying
11 the likely demand in the combined U.S.-Canadian market
12 over the next several years.

13 Even using demand projections such as
14 inclusion of MacKenzie and Alaska that now appear to
15 have been over optimistic, Jacobs concluded that, and
16 I quote, "Under most pipe supply/demand scenarios the
17 available manufacturing capacity should be sufficient
18 to meet the expected average annual demand."

19 If we adjust the Jacobs estimates of demand
20 downward to the more realistic levels or use their
21 lower range, focus on the next few years that
22 constitute a reasonably foreseeable horizon, use a
23 more representative ratio of miles of pipeline per ton
24 of pipe -- our industry colleagues have told me they
25 think that a somewhat thinner-walled thickness should

1 be used in making that calculation -- and take into
2 account the hundreds of thousands of tons of new
3 spiral weld capacity slated to come into operation in
4 the next few years, there is simply no credible
5 evidence of a likely supply shortage on the horizon.

6 I'd like to just add one more point because
7 of something Mr. Huey said where he quoted me out of
8 context. There was a sentence in my written
9 submission which says, and I'll read you the whole
10 sentence, "Therefore, in the long run pipeline
11 construction cannot grow faster than the demand for
12 gas itself."

13 Mr. Huey left out the words "in the long
14 run," making it seem as if I had said something
15 nonsensical, but of course that's not what I said. I
16 said that was true only in the long run, and right
17 above that I said that pipelines can be built "to
18 transport gas from new sources of supply to existing
19 markets," which is exactly what Mr. Huey claimed I
20 didn't acknowledge. I just wanted to add that for the
21 record.

22 So to conclude, I think if supplies of
23 subject imports are allowed back into the United
24 States and once again begin underselling domestic
25 products in the bidding process this would upset the

1 balance between supply and demand in the domestic
2 market and lead to a recurrence of injury to the
3 domestic industry.

4 Thank you very much.

5 MR. SCHAGRIN: Thank you, Dr. Blecker.

6 Chairman Pearson, that concludes our direct
7 presentation. We'd be happy to answer the
8 Commission's questions.

9 CHAIRMAN PEARSON: Thank you, Mr. Schagrin.
10 Thank you to all the members of the panel. It's a
11 pleasure to have you here today with however many
12 hundred years of experience you have. We won't ask
13 each person to stand up and say how many years of
14 experience he claimed, but we appreciate the insights
15 that you have.

16 We begin this morning's questioning with
17 Commissioner Williamson.

18 COMMISSIONER WILLIAMSON: Good morning.
19 Thank you, Mr. Chairman, and I also want to thank the
20 witnesses for their complete testimony and for all of
21 them coming and taking time to give it to us today.

22 With reference to the Preston study and
23 their characterization of the pipeline industry as the
24 hottest item in the pipe and tube market, and we've
25 had some testimony already that has challenged that

1 characterization.

2 I was just wondering because there was some
3 mention about more use of thinner pipe and the spiral
4 pipe and so I wanted to get some idea as to how that
5 affects the forecast of demand of how much pipe is
6 actually going to be used.

7 I don't know. Dr. Blecker, you made
8 reference to that.

9 MR. BLECKER: Well, I think the industry
10 witnesses can probably tell you much more in detail
11 about this. They're the real experts here.

12 My point was simply about a calculation
13 actually in the other report, in the Jacobs report,
14 where he takes tons of pipe output and converts it
15 into miles of pipeline.

16 What some of the industry gentlemen told me
17 yesterday was that he had used a fairly thick
18 thickness of the pipe so that you would get less miles
19 out of a given tonnage, and they thought it was more
20 realistic to get I think about 20 or 25 percent more
21 miles This is only for the DSAW pipe, by the way, not
22 for the ERW pipe.

23 There's two kinds of large diameter line
24 pipe. For the saw or DSAW pipe these gentlemen, and
25 whoever said this can speak for himself, that I think

1 you would get 4,000 miles instead of 3,200 miles out
2 of the tonnage that they have the capacity for.

3 COMMISSIONER WILLIAMSON: Why don't I let
4 someone else address that? Particularly, is there
5 something about the U.S. type of pipe that's going to
6 be needed for the project in the U.S.?

7 MR. DELIE: Well, we have seen the trend
8 over the years to go to lighter walled and higher
9 grades. Twenty years ago X-42, X-52. They've started
10 going to X-70. As you get to the higher grades of
11 pipe you can go into thinner walls, which requires
12 less tonnage and lower cost to put a pipeline in.

13 We're seeing right now that almost all new
14 pipelines are X-70 grades and an increasing request
15 for quotes from X-80 grade pipe, which are higher
16 strength which require thinner walls. That's what
17 we're seeing the trend in the industry, and we see
18 that continuing.

19 COMMISSIONER WILLIAMSON: Thank you. Does
20 anyone else want to add anything on that?

21 MR. SCHAGRIN: No. I would just add,
22 Commissioner Williamson, I do find it a little ironic,
23 having been here four months ago on OCTG. It seems
24 every time I'm at the Commission the product under
25 investigation is always the hottest item in the pipe

1 and tube market.

2 I don't think they can all be the hottest
3 item in the pipe and tube market. There's just a
4 little too much hyperbole from some consultants who
5 are paid to draft reports. Thank you.

6 COMMISSIONER WILLIAMSON: Okay. Thank you.
7 Going to another area where there might be some
8 hyperbole, what about page 2-7 of the staff report
9 shows the expected prices generated by the EIA for
10 both oil and natural gas.

11 Based on these projections, prices of oil
12 and natural gas are very likely to maintain their
13 recent high levels at least through 2008, and I was
14 wondering how will these forecasts affect demand for
15 subject pipe given the apparent cyclical nature of
16 demand in this industry as demonstrated in the past?

17 MR. DELIE: I could try to answer that one a
18 little bit.

19 Yes. As oil and gas increases or the prices
20 of gas increase there's a tendency to think that
21 there's going to be more pipelines, but there's also a
22 limit where the price gets high for other forms of
23 energy such as coal and even other things in nuclear
24 start coming in which actually can cause a decrease in
25 the amount of natural gas used because of the price of

1 the natural gas so that there is a balance between the
2 energy prices, the price of the natural gas, you know,
3 and the demand for the pipe.

4 You have to be careful there. There is an
5 initial increase, but there is a point where it can
6 cause it to decrease in actual demand of natural gas,
7 as we've seen from 2000 to 2006, actually go down
8 because of the higher prices.

9 MR. SCHAGRIN: I think you'll hear more
10 about that, Commissioner Williamson, from the pipeline
11 producers this afternoon, but no question looking at
12 this product historically that in the 2000 to 2002
13 time period when you were hearing about horrible
14 electricity shortages in California -- I think we all
15 remember those blackouts in California. I can also
16 remember the blackout in New York City. I was there
17 that day unfortunately.

18 COMMISSIONER WILLIAMSON: So was I.

19 MR. SCHAGRIN: Yes. It was horrible. But
20 anyway, you know, because of that there was in the
21 earlier part of this decade a real rush to build a lot
22 of new natural gas electrical generating facilities,
23 and those were largely built.

24 Now as we're looking at more electricity
25 shortfalls going forward it seems that most of the

1 plans, because of the high price of natural gas, are
2 for new coal power plants, and they're trying to deal
3 with how to make it clean coal, but there's no
4 question that looking forward there's a change in the
5 way the electrical generating companies are thinking
6 of generating electricity away from natural gas
7 because of the high cost and towards either coal or
8 probably a resurgence of nuclear.

9 There's no doubt that over a longer term
10 higher prices for natural gas will reduce demand for
11 natural gas, and in the end after you start getting
12 these pipelines built to bring it from the new source
13 of natural gas in the Rockies to present areas of
14 consumption, that would in fact decrease the need for
15 new pipelines.

16 COMMISSIONER WILLIAMSON: Along those lines,
17 what is the share of the subject pipes used for
18 natural gas projects versus oil projects or versus
19 other applications? What is it now, and is there any
20 forecast for change?

21 MR. DELIE: I'm not sure of the exact
22 percentage, but I do know that a majority -- for us
23 over 95 percent of what we're producing -- is for the
24 natural gas part of the industry. It's a very high
25 percentage, but I don't know the exact number.

1 Larry, I don't know if you see the same
2 thing.

3 MR. LAWRENCE: It certainly is the vast
4 majority, but I wouldn't hazard a guess as to what
5 percentage it would be, Commissioner. It's the
6 overwhelming majority.

7 MR. SCHAGRIN: And we can maybe provide some
8 more information in our postconference brief.

9 COMMISSIONER WILLIAMSON: Okay. Thank you.
10 Going to this question of orders, the representatives
11 of the Japanese producers have suggested that you
12 really all have full orders.

13 I was wondering if you could tell us
14 something. What is sort of the normal lead time for
15 purchases, and were your orders in 2006 higher or
16 lower than they are now?

17 MR. DELIE: I'll answer for Berg Steel Pipe.
18 They say that we're all full capacity. I am running a
19 two-shift operation on the mill that I'd like to run
20 three shifts on.

21 Our order book this year for 2007 is pretty
22 similar to 2006. The first quarter of 2006 we were
23 just starting to ramp up on two shifts. 2005 we ran
24 one shift.

25 I think in January and February we were

1 ramping up from one shift to two shifts on training
2 new employees, so 2007 was slightly better, but not
3 tremendously because we were going on two shifts.
4 That's what we see for Berg.

5 MR. NOLAND: For American Steel Pipe, our
6 order book is heavier in 2007 than 2006, but, as we
7 discussed when you were in Birmingham, we added a one-
8 half processing shift, a shift that shares work in
9 both facilities, to work as a partial second shift to
10 increase our throughput in response to an increase in
11 demand.

12 It's third quarter 2006 now. We could
13 accommodate a large pipeline project in the first
14 quarter of next year, so this is not unprecedented
15 backlogs. In the past five years it's certainly been
16 a lot worse than that, but again we think that a six
17 to eight month backlog is not something that's
18 hampering our customers in getting the pipe that they
19 need.

20 MR. STUPP: Yes, Commissioner. In our
21 situation we actually ran a partial shift in late
22 fourth quarter and early first quarter of this year,
23 and then we actually pulled that off and redeployed
24 the people that we had working on that partial shift.

25 We had people working extra hours. They

1 would make pipe for half the time and then they would
2 go finish the pipe the second half of the time they
3 were there. We do not have the demand to keep that
4 force going.

5 Both of our primary steel suppliers have
6 pushed us that they have material available so we have
7 the capability, based on the lead time to order the
8 steel and to schedule the people.

9 We can certainly actually produce more
10 material in the fourth quarter of this year and the
11 first quarter and the rest of 2008. We have capacity
12 available to meet a much greater amount of demand.

13 MR. LAWRENCE: In the case of Oregon
14 Steel --

15 COMMISSIONER WILLIAMSON: My time is up.

16 MR. LAWRENCE: I'm sorry, sir?

17 COMMISSIONER WILLIAMSON: My time is up.

18 MR. LAWRENCE: Okay.

19 COMMISSIONER WILLIAMSON: We'll come back to
20 that.

21 CHAIRMAN PEARSON: Commissioner Pinkert?

22 COMMISSIONER PINKERT: Thank you, Mr.
23 Chairman, and I'd like to welcome the panel and thank
24 the panel for coming here to testify today.

25 I'd like to start with Dr. Blecker and ask

1 whether you agree with the reports that are cited in
2 the staff report suggesting that global demand for
3 welded large diameter pipe exceeds the current
4 capacity?

5 MR. BLECKER: Commissioner, I think hard
6 evidence on global demand and supply is hard to come
7 by. There does seem to be a boom in global demand,
8 but what's also happening is that there is increasing
9 supply in the world market as well, which I don't
10 think received as much attention in the staff report.
11 We have an exhibit in our brief which lists some of
12 the major plants being constructed all around the
13 world.

14 I think it's confidential so I can't tell
15 you about it here, but the producers, you know, it's
16 the laws of supply and demand. When demand increases,
17 supply responds, and so just because demand has
18 increased does not mean there is an excess demand, and
19 countries like Russia, India, China, etc., are all
20 building more mills, and we don't have the evidence, I
21 don't think, to say that there is a demand-supply
22 imbalance in the global economy.

23 MR. SCHAGRIN: Commissioner Pinkert, I would
24 just add, as both the staff report discussion of
25 global demand for large diameter line pipe and the

1 staff report discussion of US demand, with all due
2 respect to the staff, I think the problem is, and if
3 you look hard enough, footnotes at some of those
4 tables, you see that they are largely based on
5 applications to build pipelines. That's true in the
6 US or globally.

7 It's plans that pipeline companies have
8 said, oh, we want to build a new pipeline through the
9 Caspian Sea that's 3,000 miles long, or the Russians
10 want to build a new pipeline all the way to China
11 that's 8,000 miles long. There's always a lot of
12 discussion, in the US it's rampant, you know, there
13 were other pipeline applications to build along the
14 same corridors of Rocky Mountain Express.

15 The key, and these gentlemen with all of
16 their industry experience can always tell you, is that
17 there is always lots of plans to build pipelines.
18 Usually less than half of them get realized, and as
19 soon as one gets realized to move gas from one market
20 where it's being produced to another market where it's
21 being consumed, rarely is another pipeline built along
22 that same route for dozens of years.

23 So I think as to both international demand
24 and domestic demand, the data in the staff report is
25 necessarily inflated, only because the sources of data

1 are best for applications or plans to build pipelines.
2 There isn't good, hard data on actual demand.

3 COMMISSIONER PINKERT: Now, Dr. Blecker, I
4 understand your point about demand calling forth a
5 supply response. What I am wondering, going back to
6 the staff report again, is whether the global demand
7 excess would be expected to continue into 2008. In
8 other words, is there a lag in calling forth that
9 response that you are referring to?

10 MR. BLECKER: Commissioner, I would have to
11 look in more detail at the dates for the plants that
12 are coming on line, and what information we have on
13 that, to give you more detail. The answer, normally
14 there is some lag, but since the demand apparently has
15 been rising for the last year or two, one would think
16 that that response is already going on. I know we've
17 heard about a plant in the US that has just opened, or
18 about to open, and this does seem to be going on in
19 the rest of the world, but without the information in
20 front of me, I wouldn't want to say here.

21 You'd have to look at what happened in which
22 year, so I'll try to answer that post-hearing.

23 MR. SCHAGRIN: Commissioner Pinkert, as you
24 know, I'm not an economist, but I do know something
25 about the conditions of competition in this industry,

1 and I think the data of record in this investigation
2 on the huge increase in non-subject imports into the
3 US market over the past two years is strong evidence
4 that global demand is not outstripping global supply.
5 Why would producers in India, China, Europe, Brazil,
6 be shipping such large quantities to the US market in
7 2006 and in the first half of 2007, and they've
8 already booked orders for 2008, if closer markets were
9 booming in terms of demand?

10 I think that's the strongest evidence on
11 this record that it's a fallacy to say that global
12 demand outstrips global supply. That's the evidence
13 on the record of this investigation about what has
14 actually occurred, not speculation as to what may
15 occur.

16 COMMISSIONER PINKERT: Thank you. Now I'd
17 like to turn to some of the testimony that we have
18 heard this morning about investment plans. I note
19 that Mr. Noland and others testified about the
20 possibility of additional domestic investment, and
21 what I'm wondering is whether, say over a ten-year
22 period, there are assumptions about the level of
23 operating margins that would justify the investment
24 that you testified about this morning.

25 Perhaps Mr. Noland, you could begin to

1 address that issue?

2 MR. NOLAND: Well, there certainly are
3 assumptions to that that I could provide in a post-
4 hearing document, but we are looking, again, at trying
5 to identify further constraints in our system that
6 would allow us to increase productivity and also
7 increase through-put, not dramatically, but enough to
8 certainly handle any increased demand in North
9 America. So we are talking on the levels of 30 or 40
10 percent increase in capacity.

11 But we feel confident that if we continue to
12 have fair competition, that we'd have a return on
13 investment that justifies that expense.

14 COMMISSIONER PINKERT: Anyone else on the
15 panel? Mr. Stupp?

16 MR. STUPP: When we made our investment back
17 in the 1990s, we were looking in the fair export
18 market, a lot of which was driven by INGAA companies
19 doing business, and particularly in South America, and
20 that business all dried up and went away in the late
21 1990s and then has not returned, so we are still
22 trying to recoup our investment, and we have a very
23 large capacity capability that's not being stretched.

24 Our investment plans are more specific to
25 individual parts of our operation where we think we

1 can improve our efficiency and through-put based on
2 trying to reduce our costs, but not to increase our
3 capacity.

4 MR. LAWRENCE: Mr. Commissioner, in my
5 earlier testimony I alluded to the fact that we
6 actually reduced tonnage capabilities at Oregon Steel
7 Mills when we shut the Napa facility down, going from
8 some 400,000 tons to 180 to 5,000 tons in spiral-weld
9 capabilities. The driver for us was simply, in the
10 cost-price ratios we looked at and market
11 opportunities on a medium-sized market, that we felt
12 that on an even playing field that we could improve
13 our performance from a cost perspective, and continue
14 to proceed to produce at least at that level of
15 tonnage.

16 So we were confident enough in the continuum
17 of small project opportunities, even in the absence of
18 forecasts that were anything other than glowing from
19 the major gas transmission companies. We decided to
20 proceed on the basis of better cost enhancements and
21 participation in the normal and natural markets within
22 our geographic sphere, particularly in the West and
23 the Rockies.

24 MR. DELIE: I'd like to answer that too. On
25 our spiral-weld mill, the first time I actually

1 presented it to my board was in 2001 when the market
2 was in its depression or going down, and I presented
3 it back then as the same theory was the cost savings
4 of spiral pipe. Prior to about 2003 or 2004, spiral
5 pipe was not accepted in the United States, so there
6 were no pipelines using spiral pipe at all.

7 We've seen the trend of consolidation and
8 the retirement of the older people through this
9 consolidation, but the industry, the oil and gas
10 industry was -- more acceptance of spiral-weld pipe
11 especially on land line projects, thinner wall, higher
12 grades. We've seen that as something that was coming
13 and we wanted to be the first on the block to come out
14 with it. Unfortunately, Larry beat us to it.

15 But we forecasted. That's what we were
16 going for, is the price difference, and we knew that
17 as competition got tougher and tougher, that we wanted
18 to have a mill that had a bigger cost advantage.
19 Coils is a big difference right now, and I'm not sure
20 what the difference is right now. It's somewhere
21 between 2, 300 dollars a ton difference between plate
22 prices and coil prices for the grades that we use.

23 If you look at history, there was a short
24 time there that they were the same, but typically,
25 coil pricing has always been slightly below plate

1 prices. The other big thing is the double jointing
2 cost. There is a cost of taking two 40-foot sections
3 of pipe and welding them together. You eliminate that
4 cost, plus that gives us a big advantage on spiral
5 pipe, so in -- our only business is large diameter
6 pipe. We wanted to be the leader and cost leader in
7 it, and that's why we proposed that.

8 Now, as the marketplace started to pick up
9 as we got out of the down cycle, my board approved a
10 project, and that's why we are going forward, because
11 we want to be in the line pipe business for the long
12 run.

13 COMMISSIONER PINKERT: Thank you.

14 CHAIRMAN PEARSON: Following up on that, if
15 I understand correctly, you are making arguments that
16 the Respondents are saying that the outlook is overly
17 optimistic, and you are pouring some cold water on
18 that, okay? Then we come to this issue of the plant
19 expansions, and you are addressing some reasons for
20 the plant expansions, but is there anything other than
21 just the cost advantages that are driving the decision
22 to build new plants?

23 I mean, is there some optimism in the future
24 that's behind it also?

25 MR. DELIE: Right now, the market I'm not

1 going to say is a bad market. It's a good market
2 right now. We have a good market. 2005 was not a
3 real good market. 2006 picked up. 2007, 2008 --
4 2009, I've got a lot of questions. We've got a lot of
5 capacity coming on line. I'm not sure if 2008 is the
6 peak. I live in Florida and we look at forecasts for
7 hurricanes all the time, and no matter how much they
8 study it, they are always wrong, or they are off a
9 bit, and the large diameter line pipe business is the
10 same way.

11 We look at all the FERC applications. If
12 you looked in 2002, it looked like 2003 was going to
13 be a good year, and then it started falling off
14 because steel prices went up and everybody was waiting
15 for the crash in steel prices, so it got delayed even
16 further. Right now, we believe that this is just a
17 catch-up period, and our business is cyclable. It's
18 going to go up and down, and when it goes down, we
19 wanted to have a spiral pipe plant that can be cost
20 competitive, that in a tough market, we can still
21 compete and still be in the business strong.

22 The Berg plant has some other advantages in
23 the down market where we have a quick changeover so I
24 can run that plant at a 60, 80,000 ton level doing
25 distributor businesses on small lot orders, so I think

1 I have an opportunity for both plants to be
2 competitive, and that was what we are looking at in
3 the long run, and if their projections or forecasts
4 are correct and we are going to be ten years of
5 unbelievable supply, that would be great, but right
6 now, I can see there's other constraints like railroad
7 cars.

8 And like I said, I'm still on two shifts.
9 Next year -- we are doing our forecasting right now --
10 we are looking at possibly going on three shifts for a
11 while because we are going to be able to do some
12 transportation things, because we are limited with
13 railcars, but it's not going to be all year on three
14 shifts. If somebody gives me an order this year in,
15 say, December, go on three shifts, well, I can't hire
16 a whole crew, train them and only keep them for a
17 month or two.

18 I have to have at least nine months of being
19 able to keep people, nine months to a year, to keep
20 people on three shifts. I can't hire them for a month
21 and throw them out, because there is a lot of
22 training, because there are some skilled jobs in our
23 workforce.

24 CHAIRMAN PEARSON: Do other representatives
25 of the industry have thoughts on --

1 MR. LAWRENCE: Yes, sir. Our business model
2 is a little bit different than some of the other
3 gentlemen here. Oregon Steel Mills has a rolling mill,
4 and we have the capacity and capability to provide
5 steel substrate for two processes of large diameter
6 pipe. One is steel plate for UOE process and straight
7 seam, and the second is that same facility can produce
8 coil, which is the feed stock for our spiral
9 capability.

10 Our view is just exactly as Dave Delie said.
11 We looked at the opportunity of merging those
12 capabilities in down markets as being a better cost
13 position to be able to stay viable, stay competitive
14 to whatever the market would bring, but at the end of
15 the day, our fundamental position is that we add value
16 to our steel rolling facilities through our enhanced
17 products of making large diameter pipe.

18 So that's been our core business plan for
19 many years and continues to be, and that's why we
20 chose to reinvest in the new technologies in Portland,
21 Oregon once we shut the Napa facility down because of
22 high costs associated with it. So under any
23 circumstance that we could possibly see, those
24 investments in value-added products with those
25 processes were a good investment for us, recognizing

1 that there would be a steady stream of consumptive
2 demand in North America for some small projects,
3 transmission projects as well as the pipeline
4 integrity work and the typical maintenance and repair
5 work and that work through distributors.

6 So it was those combinations that allowed us
7 to proceed.

8 CHAIRMAN PEARSON: Are you comfortable with
9 Mr. Delie's sense that looking forward, perhaps into
10 2009, you can see some projects that are likely to
11 keep the plants running?

12 MR. LAWRENCE: We have forecasted a
13 reasonable stable marketplace through 2009. It gets
14 fuzzy after that point in time because in point of
15 fact, what we don't have, and as we, just like
16 everyone else, in our handicapping efforts to see
17 where these projects may fall, we really don't have a
18 very clear handle with any degree of certainty, as I
19 said earlier, on when these projects are actually
20 going to begin construction.

21 So where they fall, there is a large lump of
22 announced and potential projects, but we really don't
23 have the level of confidence that we would like to
24 have as to when exactly these things will start
25 falling, and therefore pull the demand out of the

1 producers to fill up the schedules. We just don't
2 know what those are.

3 MR. SCHAGRIN: Chairman Pearson, if I can
4 add, because I think you started your question saying,
5 you know, it seems like the domestic industry is
6 trying to pour water on the extreme optimism of the
7 Respondents, and we are trying to pour water on it
8 because their optimism is just way too extreme, and I
9 have to contrast it with recent sunset reviews before
10 this Commission on plate and OCTG where you had
11 domestic industries that are performing very, very
12 well for very many years, and information that demand
13 was probably going to remain good, and people in the
14 industry concerned about how long that would last, and
15 the Commission majority said, you know, it seems that
16 concerns about demand are somewhat speculative and we
17 can't depend on them, that demand looks pretty good
18 and so these industries have been doing so well, they
19 are not that vulnerable.

20 Here you have an industry that has really
21 only done well for maybe a year and a half. You are
22 going to get first half of '07 information. We are
23 confident it's going to be pretty good for this
24 industry. But we think demand in '07, '08, probably
25 in '09 are going to be pretty good. This industry,

1 the folks who are going to testify this afternoon,
2 went through just a debacle in the first half of this
3 decade.

4 I don't know how much the Commission will
5 get into it, but in my lifetime, other than the dotcom
6 bust, we've never seen anything in US economic
7 history, business history, like the collapse of Enron.
8 I mean, taking out a 35 or 40 billion dollar market
9 cap company and making it zero in a day, and a lot of
10 these pipeline companies have gotten involved in
11 energy trading. They were nailed in California with
12 huge fines for manipulating the market.

13 I mean, it just sucked billions out of these
14 pipeline companies, so from '02 to '05, these
15 companies were not focused on their main business,
16 which was pipeline construction and maintenance. They
17 have to make up for that, and they are going to make
18 up for it in '07, '08, '09, probably, probably going
19 down starting '09. After that, there's just no
20 reliable forecast that would come to any other
21 conclusion that we are going to get back to the norm.

22 In the meantime, domestic industry is adding
23 supply. That's a fact. There is no question the
24 industry is adding supply. If you add domestic supply
25 and demand just stays at the same level instead of

1 booming, that's going to make this a very vulnerable
2 industry, and that's practical, that's not
3 speculative.

4 CHAIRMAN PEARSON: But it sounds as if we're
5 relatively comfortable with looking forward a couple
6 of years into 2009 and saying that there is likely to
7 be business, and we ought to be able to keep the mills
8 running at something around the current level, with
9 some possible timing problems when the orders don't
10 come in as promptly as we would like?

11 MR. DELIE: 2009 I still think is a question
12 mark because of the additional supply all coming on,
13 so depending on when that additional supply comes on,
14 how well it comes on line, and the non-subject imports
15 that continue to rise, 2009 in my mind is still
16 somewhat questionable.

17 CHAIRMAN PEARSON: Okay. As we get out
18 beyond that we would get past the point that most of
19 us would consider to be the reasonably foreseeable
20 future, but you guys have been -- let me use an
21 agricultural comparison -- you've been in a drought of
22 sorts here, a pretty severe drought in 2002, 2003, and
23 then getting just enough rain to get by for the rest
24 of the time, and now you've finally got good rains in
25 2006, and that's nice.

1 You need to make some money when you can,
2 and if I've not said it before for a group of pipe
3 producers, I'm really strongly in favor of making
4 money. My experience in the private sector was that
5 that was far, far better than the alternative. I've
6 had some experience on both sides of that. So I think
7 it's good to be making some money, but my light is
8 changing and before I ramble off into some other
9 topic, I'll turn it over to the Vice Chairman and come
10 back later. Thanks.

11 VICE CHAIRMAN ARANOFF: Thanks, Mr.
12 Chairman. I join my colleagues in welcoming all of
13 you here this morning. It's always really helpful to
14 hear directly from the people with the most
15 experience. I was struck in looking at the financial
16 numbers in this case with the fact that although this
17 industry has reduced employment significantly over the
18 period that we are looking at, there hasn't been a
19 corresponding improvement in productivity that you
20 would frequently see.

21 Can anybody comment on why that's the case?

22 MR. DELIE: For us, for example, during some
23 of the bad times, we went down to one-shift operation.
24 I kept additional people than I normally need for one
25 shift so that I had the talent that I need to go to

1 two shifts. One of the positions we have is x-ray
2 technicians, level 2 x-ray technicians. It takes a
3 year to train those people, so we did not want to lose
4 them and have the risk of not ever getting them back,
5 so we actually, on the one-shift operation, our
6 productivity levels went down.

7 But I think when we got back on the two
8 shifts, I can speak for our company from the 2001
9 levels, we are up probably 10 to 15 percent in
10 productivity now that we are back on the two-shift
11 operation. But during the bad periods on the one-
12 shift, I had additional people that -- I had
13 additional maintenance people, for example. We can't
14 get maintenance people, good electricians, you can't
15 hire an electronic guy that knows your equipment on
16 your mill, even if you hire a good guy, it might take
17 him a year to understand the programs, the electronics
18 in your specific mill.

19 So when we go down, we bite the bullet and
20 hold some of these people so we don't lose them.

21 VICE CHAIRMAN ARANOFF: Okay. Mr. Stupp?

22 MR. STUPP: Yes, I would like to say
23 basically the same thing, that as a privately held
24 business, we've been around for a long time. When
25 times get bad, we try to protect our people, so it

1 makes our productivity look worse. We've certainly
2 done some things over the last couple of years, when
3 level of business has increased, to be more
4 productive, to better utilize our people, our
5 equipment. We've hired some outside resources to help
6 us improve our up time and our yield when the business
7 is really slow.

8 We would conduct changeovers during normal
9 working hours instead of after hours, just because we
10 didn't have enough work to really drive us to be as
11 efficient as we could be.

12 VICE CHAIRMAN ARANOFF: Okay. Mr. Lawrence,
13 did you want to add something?

14 MR. LAWRENCE: Yes, ma'am, I'd just make one
15 other comment. I think one of the real sleeper issues
16 here is that the industry itself has really done a
17 very good job of elevating the specification criteria.
18 The criticality of specifications from the major
19 pipeline transmission companies have really all been
20 geared to safety, and an extraordinary leap in many
21 cases coincident with the advancements of technology.

22 There's new equipment, new testing
23 procedures that require more time and attention and
24 actually slow down, in many cases, certain operations
25 of the pipe mill flow, so there is a data point

1 contribution to the issue that you are raising. Each
2 mill is different, but to be sure, there is the
3 criticality of the nondestructive tests, and then the
4 second thing I think is really important in this too
5 is just something as simple as, without getting into
6 fine details, but hydrotest pressures.

7 If you are required by one company to keep a
8 hydrotest pressure in your mill for 10 seconds or 15
9 seconds and someone else wants it at 30, you have an
10 exponential slow-down in productivity, so then
11 customer by customer, specification by specification,
12 that productivity issue can be shown in those
13 different changes.

14 VICE CHAIRMAN ARANOFF: Okay. I appreciate
15 all the things that you --

16 MR. DELIE: One more thing I'd like to add
17 too is, during the time that we had a one-shift
18 operation and there wasn't a lot of projects, our mill
19 does a lot of distributor business and a lot of small
20 lot orders where we do a lot more changeover, so
21 compared to the long run, your efficiency is getting
22 down because we are spending more time on changeovers.
23 So that also had a big effect on us in the 2004, 2005
24 time frame.

25 VICE CHAIRMAN ARANOFF: Okay. That's all

1 helpful. Let me ask, at the time of the original
2 investigation, spiral-weld product hadn't really made
3 any inroads in the US market. It's starting to now,
4 and I'm trying to understand sort of what the
5 acceptance level is in the US market. What products
6 are the spiral-weld products going to substitute for
7 that were previously either ERW or LSAW products, and
8 do you think that spiral-weld has really reached a
9 level where we can say when a mill comes on line in
10 the US, its product is basically accepted, or is there
11 a further acceptance process that the market is going
12 to need to go through?

13 MR. LAWRENCE: Well, I'll take a stab at
14 that. Evraz Oregon Steel Mills did a reasonably
15 extensive canvass at senior levels of the major gas
16 transmission companies in North America, US in
17 particular, before we made the decision to shut the
18 Napa facility down, to gauge just that, what was the
19 suitability for service, the interchangeability, if
20 you will, of spiral to straight seam SAW pipe, and we
21 found, without exception, that in fact, the acceptance
22 criteria had changed.

23 The last customer that we had, to my
24 knowledge, that did not accept spiral-weld pipe in the
25 US for a major transmission system was El Paso. When

1 the Cheyenne Plains project was put on line and
2 approved by the FERC and moved forward, which is a
3 very successful project, spiral-weld was included for
4 the first time in their specifications, and that in
5 large part was the final ink for us, the driver to
6 realize that we wanted to be in that business.

7 I think there is still some reticence in
8 some off-shore requirements and sub-sea applications
9 for spiral-weld. Those are limited, to be sure, but
10 as I said earlier, with the incredible and
11 contemporaneous advancements in technology and
12 nondestructive test systems, real-time process
13 evaluations to validate the process itself, the
14 integrity of the welds, the rolling, the metallurgy,
15 the advancements of the industry in general have
16 really now allowed a pretty widespread acceptance of
17 spiral-weld.

18 In fact, I can't name one major company in
19 North America that would not accept it.

20 VICE CHAIRMAN ARANOFF: Okay, well, that's
21 helpful. Just to clarify though, in terms of the
22 applications to which it can be put, it can be put to
23 any application that ERW pipe could be put to, and
24 most of the applications that the LSAW could be put
25 to, except, you are telling me, certain undersea and

1 sour service and that sort of thing, which I don't
2 know what percent of the market that accounts for but
3 I assume it's pretty small?

4 MR. LAWRENCE: Well, I'm not an engineer,
5 and I can't warrant or represent the applications for
6 ERW to a spiral SAW, but depending upon the OD,
7 certainly on 24-inch, there's some interchangeability,
8 and then there is some specification preferences and
9 some biases still that are perhaps left over that I
10 really can't articulate clearly, so I'm afraid I can't
11 give you a real clear answer on that. John, perhaps
12 you can?

13 MR. DELIE: The other thing about the
14 underwater, the underwater applications are usually
15 heavier walls, thicker walls, and the spiral pipe, as
16 you get over certain gauges, the coil supply and
17 everything gets harder and harder to find too, so
18 there's also a natural thing of the cost between the
19 long seam and the spiral get closer on the heavier
20 wall projects, and because of the additional weld,
21 people are still a little bit skeptical but it's not a
22 large part.

23 Most of the projects are on the land and
24 they are going with the lighter wall stuff, so the
25 spiral pipe is completely interchangeable on land.

1 VICE CHAIRMAN ARANOFF: Okay, so I guess I
2 would take from that that as these new domestic
3 spiral-weld facilities come on line, there's not going
4 to be a long period for acceptance of their product in
5 the marketplace?

6 MR. DELIE: That is correct. I think a lot
7 of companies have acceptance criteria that they have
8 to approve the mill, and that would be regardless of
9 if it was a spiral mill or a longitudinal mill. The
10 product will be accepted right away.

11 MR. SCHAGRIN: Commissioner, I just may add
12 on that underwater, to our knowledge, it's a part of
13 the market that depends from year to year, but maybe
14 in the 5 to 10 percent range in the market, and we
15 believe that most of that market is actually served by
16 heavy wall products that have been excluded from the
17 scope of this investigation, so it would be served
18 either by Japanese mills or by maybe European mills,
19 but largely, already it was difficult for US mills to
20 serve that extremely heavy wall because those very
21 heavy walls just weren't produced in the US market,
22 and the market is relatively small that it never made
23 sense for someone to invest a lot of money to make
24 those extra heavy walls just to serve that underwater
25 market.

1 VICE CHAIRMAN ARANOFF: Okay, I appreciate
2 all those answers, and since my time is almost up,
3 I'll hold my next question. Thanks, Mr. Chairman.

4 CHAIRMAN PEARSON: Commissioner Okun?

5 COMMISSIONER OKUN: Thank you, Mr. Chairman,
6 and I join my colleagues in welcoming all of you here,
7 welcoming many of you back. I appreciate you sharing
8 your experience and helping us analyze this particular
9 product in this review.

10 Mr. Lawrence, let me start with you. You
11 had noted in your testimony that what you see
12 happening, one of the reasons you see the Japanese
13 coming back into the market is that while there is
14 global growth that we've had some chance to discuss
15 here today, that with indigenous producers coming on
16 line, the Japanese product will need to go somewhere
17 else, and been in this market before and would come
18 back.

19 Can you help me understand this in terms of
20 where -- we are talking about this as a project market
21 and things are lumpy, so things come, you bid on a big
22 project, and then the next big project may be a little
23 ways away. Does that limit the ability of the
24 Japanese to come back into the US market, or maybe
25 help me with the timeline. In other words, if the

1 Japanese have bid successfully on products that are
2 getting ready to come on line in some of these other
3 countries, can they just as easily now bid on whatever
4 project you are bidding on in the US market in the
5 '08, '09 time frame?

6 MR. LAWRENCE: Yes, I believe that's the
7 case, and it's, again, my experience that this is an
8 incredibly attractive market. The US markets have
9 always been a primary target for the Japanese, and
10 they would prefer, without a doubt, to serve the US
11 market as opposed to a Chinese market, as opposed to a
12 Russian market, relative to the way payment terms
13 where the contracts are generally accepted and written
14 in the US, and the availability and the regions, and
15 also the logistics to be able to move stuff in and out
16 of this country.

17 So it's a very targeted market. I can't go
18 into any more specifics because I'm not into their
19 mindset, but without a doubt, if this order is lifted,
20 there will be instantaneously new quotations directed
21 at major natural gas transmission projects in the US.

22 COMMISSIONER OKUN: Okay, and again, I'll
23 obviously ask the Respondents all this this afternoon,
24 but when all of you were talking about while your
25 order books may look full now, that that doesn't mean

1 that you won't bid on a project that I think, maybe
2 Mr. Noland, you had said maybe eight or nine months
3 down the line, that you are looking for the first
4 quarter of next year, I think is what you said, and I
5 just wanted to go back to that.

6 Does that mean you would do that with the
7 expectation you'd need to add those second shifts that
8 some of you were talking about, or is that just, that
9 was based on the existing capacity utilization that
10 you have, not including another shift added, to be
11 able to get to the next project, even if though your
12 current order book is full?

13 MR. NOLAND: That's based on current
14 productivity capabilities that we have.

15 COMMISSIONER OKUN: Okay.

16 MR. NOLAND: We can satisfy requirements in
17 the first quarter with the equipment and the personnel
18 that we currently have.

19 COMMISSIONER OKUN: Okay, and then, I don't
20 know, Mr. Schagrin or Mr. Blecker, if this is for you.
21 I mean, obviously there has been a lot of discussion
22 about the capacity utilization rates, the Respondents
23 saying that the figures you give us are too low
24 because it's based on, you were talking about full
25 capacity would be bringing on line something that you

1 haven't done for a long time, or bringing a second or
2 third line on that you haven't done.

3 You have said that you believe that, at
4 least for the Japanese, the capacity utilization
5 figure is way too high, because if you look at the
6 production over time that they've actually produced
7 less than they could. I'm trying to figure out how
8 much, in a market where you are talking about these
9 bids and these large chunks, the capacity being used
10 or not, whether capacity utilization is a good
11 indicator for us to look at at all.

12 Whether I think the Japanese is too high or
13 yours is too low, is it a good indicator for this
14 particular market, and I do want the industry to
15 answer, but since I asked you, Mr. Schagrin, if there
16 is something you want me to think about as I hear
17 those answers?

18 MR. SCHAGRIN: There's a couple of things we
19 want you to think about. One, these mills are really
20 big pieces of equipment. SAW mills and the spiral-
21 weld mills and the ERW mills making these sizes are
22 all very big pieces of equipment. They are designed
23 by the builders of that equipment to have a certain
24 rated capacity, and yes, what they actually produce
25 will vary somewhat given the product mix. Mr. Huey

1 was correct about that.

2 But these mills as pieces of equipment are
3 also meant to run. They can run 24 hours a day, 6 to
4 7 days a week, and then they need probably 8 to 12
5 hours a week of maintenance time. So the idea that
6 these folks are understating their capacity because
7 they say, oh, well, we're running one shift when we
8 could run three shifts on the mill, or in the case of
9 Mr. Delie, he just testified two shifts instead of
10 three shifts, or as Mr. Stupp said, if he adds another
11 shift, he adds another 150,000 tons of annual
12 production with another 50 people.

13 The mill can do that. I can assure you,
14 Stupp hasn't understated their capacity. They just
15 don't have the people there right now, and they'd love
16 to have the people. They would hopefully make more
17 hay while the sun is shining, as the Chairman said,
18 and this is their time to do that, not the time for
19 the market to have dumped imports.

20 On the other hand, when the Japanese say,
21 gee, you know, our capacity and production should
22 change every year, the reason I think that's absolute
23 baloney, I mean, really just unadulterated baloney, is
24 that unless they can prove to this Commission, and
25 maybe you ought to go to Japan and verify it, that

1 they are operating the exact same number of hours in
2 2006 on each one of their mills, whether it be 24
3 hours a day, 7 days a week, but now they are making
4 lots of light wall products, which is hard to
5 understand because, don't forget, in the US market,
6 what's excluded for the Japanese are the heaviest wall
7 products, and look at their exports to the United
8 States and see, have those dropped precipitously,
9 because they are not making heavy wall products?

10 In fact, I think the Japanese have said, you
11 know, they might have problems competing with the
12 spiral-weld mills because the spiral-weld mills can go
13 light and the Japanese specialize in going heavy. So
14 what has changed on these Japanese mills? Are they
15 going to prove to you that in 2003 when they produced
16 1.6 million tons that they ran only 1 inch thick pipe,
17 but in 2006 when they only made 1.1 million tons, that
18 they only made half inch thick?

19 I would invite them to prove that. I don't
20 think that's the answer. The real answer, and it also
21 goes to your earlier question, Commissioner Okun, on
22 what's going on in the world, is that as China, where
23 there is huge demand for new pipelines, has added a
24 tremendous amount of capacity, the exports by the
25 Chinese to China have gone from over half a million

1 tons to less than 5,000 tons.

2 That means the Chinese don't need the
3 Japanese product anymore. So they are understating
4 their capacity, and the reason for that, I don't think
5 all these folks from INGAA would be here today if they
6 didn't think the Japanese and Mexicans could bid.
7 They would be really wasting their time. I'm glad
8 they are great public servants, but they are here
9 because the Japanese have the capacity to start
10 bidding on projects now. As soon as you vote, they
11 are ready to bid.

12 COMMISSIONER OKUN: I have some more
13 questions on the differences between Mexico and Japan,
14 but Mr. Noland, I'll start with you.

15 Mr. Noland, maybe I'll start with you. If
16 you have a full order book and you bid for next year
17 is it really just about how much more money you could
18 make if you could bring another line on?

19 In other words, you know, if I look at 2006
20 and say this was a good year and 2007 demandwise looks
21 like it's a fine year, too, the difference between
22 whatever you made this year and whatever you could
23 make next year could be influenced if you could add
24 another line, but you still might make money.

25 I'm not putting this question very well, but

1 I'm just trying to understand, again, it seems like if
2 you've had a good year and you have purchasers in the
3 record saying that some of them couldn't get what they
4 wanted and we have capacity expansions coming on I'm
5 trying to evaluate the condition of the industry in
6 the next two years.

7 Even if I say, okay, I don't think you're
8 all going to get to add this second or third line or I
9 don't have to believe you're going to have to add a
10 second or third line could it still be a good year on
11 your current operating?

12 MR. NOLAND: Absolutely. If we didn't add
13 the extra shifts we would still -- if we maintained
14 the order books for 2008 like we're doing now then we
15 would have a successful year, but the bottom line, and
16 we've told our customers this, we are committed to the
17 domestic market. There is certainly somewhat of a
18 concern that demand is going to be excessive.

19 We don't think that it's going to be
20 anything beyond our control, but that's why we're
21 considering adding a second processing line, to
22 possibly take care of that. If it does come to
23 fruition, if we are looking at backlogs maybe
24 extending beyond our six months then it would be
25 something -- we don't want our domestic customers to

1 feel like they have to source outside of the United
2 States so we're committed to this market for a long
3 time.

4 We've been here making steel pipe for 40
5 years, and we plan on doing it for at least that more
6 time. So I believe that we don't have to add the
7 capacity if the market doesn't demand it, but if the
8 market is there then it will be a business decision,
9 and it will be a marketing decision based on whether
10 we go forward with adding extra capacity to this. I
11 don't know if I answered that --

12 COMMISSIONER OKUN: Yes, that was very
13 helpful. My red light has come on, but I will on my
14 next round come back and hear from the other producers
15 as well. Thank you very much, Mr. Chairman.

16 CHAIRMAN PEARSON: Commissioner Lane?

17 COMMISSIONER LANE: Thank you, and I, too,
18 welcome the panel to today's hearing. There's been a
19 lot of discussion of proposed pipeline projects, and
20 looking at the list of projects in the Preston report
21 the Beacon project stands out at 905 miles with a
22 planned completion date of 2007. What is the status
23 of that project?

24 MR. SCHAGRIN: Mr. Williamson, do you have
25 the answer to that offhand or do we have to look into

1 that?

2 MR. WILLIAMSON: You referred to it as the
3 Beacon project?

4 COMMISSIONER LANE: Beacon Pipeline Rockies
5 to Chicago Pipeline.

6 MR. WILLIAMSON: I have not heard of that.
7 I would have to look into it, but I have never heard
8 of that project.

9 COMMISSIONER LANE: Okay. The
10 owner/operator is something called Enbridge. Okay.

11 MR. WILLIAMSON: I can look into it. We may
12 have seen it as another name or something, but Beacon
13 I don't know.

14 COMMISSIONER LANE: Okay. That same report
15 has a number of projects that are supposed to be
16 completed in 2007 and perhaps you could give us an
17 update on some of the larger projects?

18 MR. SCHAGRIN: Commissioner Lane, we would
19 be happy to do that. In fact, we already discussed
20 once all these reports were made public in time for us
21 to discuss them with our clients, who are of course
22 the experts in this industry not us the lawyers, that
23 because maybe that Credit Suisse report seems to be
24 the most concise and more accurate in terms of having
25 already segmented these projects, and the timelines

1 and said whether they are low, moderate or likely
2 probability that for our posthearing brief, and
3 luckily we have a little more time in this proceeding
4 than we normally do, that we would like to get the
5 Commission a thorough analysis of each of the projects
6 discussed for 2007 and 2008 and possibly on some 2009
7 as to where we see things.

8 I think that one thing about that potential,
9 you know, Beacon Pipeline, when you said it was from
10 the Rockies to Chicago, that's about the exact same
11 route or a similar route that the Rocky Mountain
12 Express Pipeline that Oregon Steel Mills was supplying
13 a product for took, and so what often happens is there
14 might be four or five different FERC applications to
15 say well, we want to move gas 1,000 miles from the
16 Rockies to the midwest, then they might even hook into
17 lines that are going into the northeast, but once
18 Rocky Mountain Express actually gets built, not only
19 approved but constructed, that the other pipelines
20 along that same corridor, maybe like this Beacon, they
21 just fall by the way side even though it was a 905
22 mile project.

23 So we will do that, Commissioner Lane, in
24 our posthearing brief, really try to give this
25 Commission a pretty thorough analysis based on the

1 expertise we have here of the projects that are
2 listed.

3 COMMISSIONER LANE: Okay. Thank you, Mr.
4 Schagrin. I would like to ask some questions about
5 the capacity of the domestic industry, but first I
6 would like to refer to page 3-13 of the prehearing
7 report where order backlogs are tabulated. The data
8 is proprietary, but could you provide any information
9 regarding the changes in order backlogs, particularly
10 in more recent years?

11 MR. DELIE: I'd like to say something in
12 general terms, but specifics we'd have to talk about
13 in the posthearing brief. I notice in the Preston
14 report you said the order backlogs went from like four
15 to eight weeks or something like that.

16 If we're at four to eight weeks we are up
17 against it not knowing whether we're going to lay
18 people off tomorrow or not because to get an order for
19 steel is typically even in slow times, the process in
20 order to get that, and their melt schedule to get it
21 and their rolling schedule is typically for us at
22 minimum at best eight to 12 weeks and that's for small
23 lot orders.

24 Now, if I go into a company and say hey, I
25 need 15,000, 20,000 tons a week starting it's not

1 going to be, you know, eight to 12 weeks out, it's
2 going to be more like 18 to 26 weeks out even in bad
3 times to have that much open time on a mill. So for
4 us a six month order backlog even in the bad times is
5 about what we'd like to have minimum because when
6 we're trying to order 100,000 tons of steel off a
7 steel supplier they need time, too, so we need times
8 on these things.

9 And because of just the nature of the beast
10 these projects are big projects, so we don't get 10
11 tons here, five tons here, we get projects in 50,000
12 ton, 100,000 ton increments that's going to tie us up
13 three or four months and then take us out. So we're
14 always looking for the business that's typically, you
15 know, six to 12 months out, and that's the normal part
16 of our business.

17 Now, if you look in 2004 and 2005 that was
18 very abnormal and it was some of the lowest levels in
19 the history of large diameter business, and we were
20 working hand to mouth, but by no means would I
21 consider that our normal business working conditions.

22 MR. LAWRENCE: I could say very quickly that
23 our backlog has not changed since that report was
24 issued and the staff report was issued.

25 We remained open for new project business

1 during that timeframe, and again, I think it goes to
2 the fact that there's a lot of announced projects that
3 are pending, and rightfully so, some folks are very
4 excited and very proud about their projects, but we
5 haven't seen a tangible hard piece of purchase order
6 come our way for those tons in the timeframes other
7 than what we've already expressed in the report.

8 MR. JASON NORRIS: In the case of Dura-Bond
9 we, too, we're mainly a start-up organization taking
10 the spiral mill from closure in 1999 when it was
11 closed, and you know, our backlog right now is
12 healthier than it was in 2006. We are still receiving
13 inquiries for and able to supply pipe in time to meet
14 the customers' requirements that they're proposing to
15 us.

16 There hasn't been a case that we know of of
17 anybody that wanted pipe that was not able to get it,
18 not able to build their pipeline. So, you know, in
19 our case, again, we feel like we're still able to meet
20 the customers' needs and also have additional
21 capacity. We are on a two shift operation now, but
22 we're going able to produce more for the shifts that
23 we have now.

24 COMMISSIONER LANE: Okay. Thank you. The
25 data indicates that U.S. producers' U.S. shipments

1 are increasing. The prehearing report also discusses
2 plans for a number of new plants under construction in
3 2007 and coming on line in 2008. However, the data
4 also indicates a significant amount of existing
5 capacity that is not being used. Why is the industry
6 constructing new capacity when its existing facilities
7 are less than 50 percent utilized?

8 MR. STUPP: I'll take a stab at the first
9 part of that. Most of the new plants are being aimed
10 at the even larger sized, the 30, the 36, the 42, the
11 48 inch. Our utilization is low in the 24 inch and
12 below, and the new products are not really going to be
13 able to address those sizes. They're not terribly
14 efficient below 30 inch. So from our standpoint
15 that's why we have a low utilization in now looking at
16 the new investments.

17 MR. LAWRENCE: I'll take another stab at it.
18 From Oregon's perspective it's all about time and cost
19 to capitalize on market opportunities that are
20 announced and we think are going to go forward.

21 We actually have in storage our O press and
22 our finishing facilities from NAPA and the UOE process
23 that are stored, and if we believed that the market
24 would sustain itself long enough, robustly enough and
25 the market remained fair in terms of competition, and

1 we had an ability to show a return on redeploying
2 those assets we would be doing that. We are not.

3 Additionally, we have the capability at our
4 Portland, Oregon, spiral mill facility even though
5 it's just begun operations and construction, this is
6 early stage, we have certain ways to expand that
7 capacity as well. Again, it's a time issue, it's a
8 cost issue and a projected return on the deployment of
9 those assets, and we have not chosen to announce that.
10 So it's a long way of saying that it's all about the
11 timing of these projects that are out there and how
12 they fly.

13 As I said in my testimony, the other folks
14 that have announced their capacities, who I believe at
15 some point in time when this market returns to its
16 equilibrium, and it will, after 38 years of watching
17 this it will return to a certain point where there's
18 going to be a significant availability of capacity
19 that's under utilized, and there's going to be some
20 difficulty in the market, so we don't want to add
21 anymore capacity ourselves.

22 Other people have chosen to do that, and
23 that question of course would have to be answered by
24 them and their boards.

25 COMMISSIONER LANE: Okay. Thank you. Thank

1 you, Mr. Chairman.

2 CHAIRMAN PEARSON: Commissioner Williamson?

3 COMMISSIONER WILLIAMSON: Thank you. Could
4 I just clarify? I think Mr. Delie said that should we
5 say a normal good practice when someone is procuring
6 for a large project is that they're going to give you
7 about six months lead time. Is that a fair estimation
8 or is that what you desire?

9 MR. DELIE: Yes, that's what we desire. I
10 mean, over the last couple of years when the market is
11 really bad, you know, it might be less, but in that
12 time period, too, with the plate mills being molted
13 you need time to be able to secure plate, especially
14 large quantities. If I'm doing a project of a 100,000
15 ton order and I need 25,000 a month and say like a
16 typical plate mill is doing a million tons a year,
17 that's about 80,000 tons, that's almost a third of
18 their capacity.

19 You know, they can't just grab that in a
20 month from now and say you're going to have 20 because
21 they have other order books. So you need time to
22 secure the plate, and the steel, and the
23 transportation and everything else. So you typically
24 need four to six months to be able to secure an order.
25 If somebody comes up and tells me they need 50 pieces

1 of pipe eight weeks from now I could get that, but if
2 they tell me they need 100,000 starting then I cannot
3 do it.

4 COMMISSIONER WILLIAMSON: It's the same lead
5 times needed if you're using coil as an input?

6 MR. DELIE: Yes. By the time you place an
7 order with a steel mill they have the same issues to
8 go through, and it depends on the order books of the
9 steel mills how that product is, too. Even if large
10 diameter is slow depending on whether the coil mill,
11 you know, the saw strip mills are booked out and how
12 far they're booked. So you need some lead times,
13 especially on large quantities.

14 Even when times are bad it takes at least
15 four weeks to process an order of steel through a
16 plant at minimum. If they have nothing on their books
17 in the worst of times it takes at least that.

18 COMMISSIONER WILLIAMSON: Okay. Thank you.
19 Mr. Norris already partially addressed this, but I
20 guess the Respondents have major allegations about
21 some of the domestic producers putting customers on
22 allocation or turning down orders. I would like the
23 producers to address those allegations.

24 MALE VOICE: I can try to address them.

25 MR. JASON NORRIS: You're talking about raw

1 material supply to manufacture pipe? Okay. Well,
2 yes, like I said I had already addressed that. You
3 know, our company is still able to supply pipe in the
4 timeframe that our customers are requiring on fairly
5 large projects. Now, our mill is not and never has
6 been a mill that can supply easily small quantities of
7 pipe for say distributor business or small projects,
8 so that's a market that we really don't participate
9 in.

10 So we're mainly a project type mill which
11 lead times are generally in the longer-term range. As
12 I had said right now we are still able to supply pipe
13 and still have the capacity through increased
14 production in the investments that we have made to
15 meet their needs.

16 COMMISSIONER WILLIAMSON: What about the
17 other producers? Yes?

18 MR. NOLAND: We turned down a customer two
19 weeks ago. He called and said, you know, I need
20 120,000 feet of pipe in August. To me, that's not a
21 failure of us, I think that's poor planning on his
22 part. I think in the worst of times we couldn't have
23 responded to that just because of like Mr. Delie on
24 the ERW side.

25 I think even in the period of the very poor

1 production that we had in the early part of this
2 decade I think we were still booked out three months
3 just because of the nature of planning for these.
4 We're a project mill planning for these projects,
5 getting the steel ordered, getting it in their
6 schedule, getting the logistics planned, getting all
7 the meetings that have to take place with the customer
8 before it's done.

9 So if a customer says well, I was turned
10 away all because our backlogs have gone from three
11 months to six months then I don't really see that as a
12 failure in what the producers because we're
13 communicating these backlogs daily with our sales
14 force to our customers, and we're doing everything we
15 can to say hey, you might have to have a little bit
16 more planning than before, but this is not something
17 that is impossible to overcome.

18 MR. STUPP: And just a quick follow-up on
19 that. I'd love to have the opportunity to have my
20 customers on allocation, but unfortunately it doesn't
21 work that way. As Mr. Noland said, you know, there
22 might be times when two customers want a large order
23 at the same time which makes it impossible to do and
24 to supply more pipe at the same time than can be made.

25 We work pretty hard with our customers,

1 though. If we have a large order if we have enough
2 time to get the steel we can break that run and make a
3 different either diameter or a different order of the
4 same diameter for a customer, but we basically make
5 one size of pipe at a time and try to work pretty hard
6 with the customers to supply their needs when they
7 need the pipe.

8 COMMISSIONER WILLIAMSON: Okay. I
9 appreciate those --

10 MR. SCHAGRIN: Commissioner Williamson, I'd
11 like to make one legal point about the conditions of
12 competition in this industry that I think goes to your
13 question very directly, and that is for about 80
14 percent of demand in this industry it's for project
15 pipelines which means the pipeline companies, these
16 INGAA members, put things out, RFQs or requests for
17 bids, and they put out their specifications, they want
18 this OD, this wall, this grade, this quantity,
19 delivered at that time, and they have a list of
20 qualified bidders, domestic and foreign.

21 So it may be that for a particular project
22 that's out to bid if Oregon Steel Mills is booked
23 until June of 2008 with Rocky Mountain Express and the
24 request for bid is to start supplying in January 2008
25 then Oregon Steel Mills isn't bidding for that

1 particular project, but given that there are four and
2 soon will be five domestic suppliers in the larger
3 sizes and three in the smaller sizes there always
4 seems to be a number of U.S. companies that are
5 bidding as well as foreign companies that are bidding.

6 I would defy, maybe you want to ask this
7 question again this afternoon, from my knowledge of
8 this industry's order books, and the projects they're
9 working on and the availability of Berg just a short
10 time ago to make 50,000 tons for another U.S. producer
11 who had fallen a little bit behind, I just don't think
12 INGAA members can supply to you definitive information
13 on bids in which there was no U.S. company able to
14 bid.

15 I do not think over this entire period of
16 review or looking forward that has existed, and I
17 would not expect it over the next several years
18 either.

19 COMMISSIONER WILLIAMSON: I appreciate all
20 those answers. Let's turn to the Mexican situation,
21 and I would be particularly interested in how
22 important is the exit of PMT from the Mexican
23 industry? How should we evaluate that at this point?

24 MR. SCHAGRIN: Commissioner Williamson,
25 obviously that would affect overall Mexican capacity

1 utilization and availability to increase exports to
2 the United States. However, we believe you're going
3 to just, you know, take that record information from
4 the existing producers and do that normal analysis,
5 that the exit of PMT is not an important legal or
6 factual issue for your analysis.

7 What is important is the ability of the
8 present members of the Mexican industry to increase
9 exports to the United States. If the exit of PMT made
10 it so that those other members couldn't increase
11 exports to the United States then that might be the
12 reason for that factual situation, but you're going to
13 take the facts as they are on the record, and of
14 course those facts are confidential, I can't talk
15 about them here, but we think that's the most
16 important thing.

17 In and of itself, the exit of PMT from the
18 Mexican industry is not a very relevant factor to your
19 legal and factual analysis of whether or not injury
20 will recur to the U.S. industry.

21 COMMISSIONER WILLIAMSON: Okay. Thank you.
22 My time is about to run out. Thank you.

23 CHAIRMAN PEARSON: Commissioner Pinkert?

24 COMMISSIONER PINKERT: I'm going to start by
25 following up on a question that Commissioner

1 Williamson just asked. I understood Mr. Stupp to say
2 that his customers have not been on allocation. I
3 might be misinterpreting your answer, but I understood
4 you to say that, and I'm just wondering as a direct
5 question in the period from the beginning of 2006 to
6 the present have any of your customers for the subject
7 merchandise been on allocation?

8 MR. STUPP: I guess it's a matter of
9 semantics. We bid projects, and the customers have a
10 bid list, and they will come to us and other suppliers
11 and give us the specifications and the timeframe that
12 they want material, and we have the choice to bid that
13 project according to their schedule or to bid it with
14 offering an exception of when we could offer the pipe
15 or make the pipe available.

16 We don't allocate any material to any
17 customer. We have mill space available and steel
18 supply available, and so we bid to what the
19 marketplace offers us.

20 COMMISSIONER PINKERT: Mr. Noland, would you
21 answer the same question?

22 MR. NOLAND: We're very identical to the
23 Stupp Corporation in that we're a project-based mill.
24 We have had no customer on allocation per se. A
25 customer calls us and says we have a project in this

1 timeframe, that timeframe, if we can't meet their
2 deadline because they're asking for pipe sooner than
3 our backlog currently is then we explain that to them
4 and say we'll give you a price, but you might want it
5 in November, we could possibly offer it to you
6 starting in January.

7 I don't know if that answers your question,
8 but we don't have anybody on allocation in the term
9 that you're asking for.

10 COMMISSIONER PINKERT: Anyone else on the
11 panel wish to comment on that?

12 MR. DELIE: Yes, I can comment. Part of
13 Berg's business that's very important is distributor
14 business. What Berg does to maintain that is in our
15 projects we always try to put time in allowed to be
16 able to take orders for distributors even though they
17 haven't placed it, so we reserve mill space for them.

18 We will work with them and communicate with
19 them about what kind of tonnages that their
20 forecasting they may need say in January of next year
21 so we can reserve mill space for them before they give
22 us firm orders. It's a risk on our part to reserve
23 the space without an order. Even though we can take
24 other orders in that place we kind of hold it for
25 them.

1 So as it gets close to that time they may
2 see a need for more space than we reserved, then they
3 may feel that they can't get everything they need or
4 they may give us less orders and we're stuck on trying
5 to move orders up or doing something with that mill
6 space, but that's about the only thing. We don't ever
7 put anybody on allocation, we just take the orders as
8 they come and address them one at a time.

9 MR. FISHER: On behalf of U.S. Steel I can
10 say we put no one on allocation. We can deliver very
11 quickly. We're integrated, so we have the steel
12 supply available and the pipe capacity making capacity
13 very quickly available in the smaller sizes of ERW, 18
14 to 20 inch.

15 MR. LAWRENCE: Evraz Oregon Steel Mills does
16 not allocate. We don't offer Customer A six weeks out
17 of our production schedule for 2008 and two weeks in
18 2009, so to that extent we specifically do not
19 allocate.

20 What we do however is we offer and make
21 multiple quotations and many times they're often for
22 similar periods of time, and what we note in our
23 quotation is a very strong message that our mill space
24 is subject to prior sale and subject to reconfirmation
25 after receipt of a firm noncancellable order within

1 five business days so that we can avoid that conflict
2 of different requirements at the same time.

3 Then we can dot the *Is* and cross the *Ts* for
4 all the things that John Noland mentioned earlier with
5 regard to supply chains, and logistics, and coding and
6 all the other things that go along with it. So
7 there's no allocation from Evraz Oregon Steel.

8 COMMISSIONER PINKERT: Turning to the input
9 side I know that we've heard testimony today that
10 different companies represented on this panel have
11 different relationships with the producers of the
12 inputs, particularly in this case I'm thinking of hot-
13 rolled. Have any of the companies represented on this
14 panel been put on allocation by their major input
15 suppliers since the beginning of 2006?

16 MR. DELIE: I can answer for Berg, no. We
17 have a good relationship, and they're actually looking
18 to increase our supply.

19 MR. JASON NORRIS: In the case of Dura-Bond,
20 we are not a fully-integrated mill. We purchase our
21 inputs on the outside, and we are not on allocation
22 either. They're looking for more business and adding
23 more capacity as we speak.

24 MR. LAWRENCE: Evraz Oregon Steel Mills has
25 actually expanded its supply chain on raw materials

1 and steel substrates in the course of that timeframe.

2 MR. STUPP: We do have a target amount of
3 material that's available to us on a monthly basis,
4 and we have been told by our steel suppliers that if
5 we need more material than that to come talk to them.

6 MR. NOLAND: The same with us. For planning
7 purposes our steel vendors, they give us a target.
8 That's not to say that you could call one month and
9 double the target, you would need some planning, but
10 all of our steel vendors have said if we want to move
11 that target they're more than happy to discuss that
12 with us. That target only exists for their planning
13 purposes not because they don't have enough steel to
14 give us.

15 COMMISSIONER PINKERT: I gather that in U.S.
16 Steel's case this would not be an issue?

17 MR. FISHER: That's correct.

18 COMMISSIONER PINKERT: Now, do any of the
19 domestic producers represented here import from
20 nonsubject countries, and if so, can you explain what
21 the circumstances are under which import?

22 MR. JASON NORRIS: I can speak for Dura-
23 Bond. We do not import. We purchase all of our raw
24 materials from the United States.

25 MR. DELIE: You're talking about pipe or raw

1 materials?

2 COMMISSIONER PINKERT: I'm sorry. I'm
3 talking about pipe.

4 MR. DELIE: Okay. We can answer that in a
5 posthearing brief.

6 MR. NARKIN: Yes. This is Steve Narkin for
7 U.S. Steel. We'd also like to address that in a
8 posthearing brief.

9 MR. NOLAND: American Steel Pipe does not
10 import pipe from nonsubject companies.

11 MR. LAWRENCE: Evraz Oregon Steel Mills has
12 a pipe manufacturing facility in Camros, Alberta, as
13 I've testified to earlier on the record. It's a part
14 of Evraz Oregon Steel Mills and is represented as
15 Evraz Oregon Steel Mills U.S.

16 MR. SCHAGRIN: We'll put it in our
17 posthearing brief, but Mr. Delie was telling me and I
18 believe it was actually discussed here in the original
19 investigation that they had been importing a product
20 from Europipe, their parent, that also produces pipe
21 in Europe during the 1998 to 2000 or 2001 for the
22 Gulfstream project, but that they have not been in
23 recent years. If there's anything else in addition to
24 what was said today, Commissioner Pinkert, we'll
25 amplify in our posthearing brief.

1 COMMISSIONER PINKERT: I appreciate that,
2 and on my question if this is more appropriate for a
3 posthearing brief then I'd appreciate your addressing
4 it there, but can anyone comment at this hearing about
5 the impact that nonsubject imports have had on
6 domestic pricing over the period of review?

7 MR. DELIE: Definitely, since the demand has
8 went up and the nonsubject imports are coming in. If
9 the nonsubject imports weren't coming in as great a
10 volume as they are I believe that we would be on three
11 shifts at Berg, and you know, even though we had a
12 good year we may have had a better year. Just goes to
13 say.

14 COMMISSIONER PINKERT: Any other comments on
15 the impact of nonsubjects?

16 MR. LAWRENCE: I'd just say that during this
17 perceived period of tightened supply that there has
18 been an elevation of status in a very elementary way,
19 the best way to describe it, of the qualifications.
20 There's been a real robust requalification process by
21 major transmission companies for suppliers outside of
22 the U.S. that heretofore were determined to be a
23 second tier or a third tier supplier, and their
24 statuses have been elevated through rigid controls and
25 upgrades of equipment, et cetera.

1 So the marketplace itself has changed
2 dramatically in terms of interest in supplying,
3 capability of supplying, and so the whole dynamic has
4 changed to the extent as David mentioned earlier
5 there's been a significant increase of imports in the
6 last several years and will continue to do so.

7 COMMISSIONER PINKERT: Thank you. Thank
8 you, Mr. Chairman.

9 CHAIRMAN PEARSON: The current capacity to
10 produce continuous weld large diameter line pipe in
11 the United States is approximately 1.4 million tons.
12 The four proposed new plants would add somewhere in
13 the neighborhood of a million tons capacity. How much
14 of that capacity is likely actually to get built?

15 MR. DELIE: We've broken ground on ours, so
16 ours is going to get built, and to be honest with you,
17 everything that our market research says that I
18 believe all four plants will get built. That is one
19 of the comments I say next year will probably be a
20 good year, in 2009 there's a lot of questions on how
21 well these mills come up with that additional capacity
22 with the nonsubject imports.

23 So with a stable demand in 2009 with the
24 increased supply there's going to be pressure on the
25 market, and it may be too much at that point.

1 CHAIRMAN PEARSON: Are there other comments
2 from the people in the business? Is there an
3 expectation that all four plants will indeed come on
4 line?

5 MR. NARKIN: Chairman Pearson, this is Steve
6 Narkin. We can obviously speak only for U.S. Steel,
7 and U.S. Steel's present intention is to build a
8 facility in California.

9 CHAIRMAN PEARSON: Thank you. Mr. Stupp?

10 MR. STUPP: One of the facilities in the
11 Gulf Coast, PSL, we feel pretty certain is going to be
12 built. They've hired a lot of people who we've had
13 contact with, and one of the investors talked to our
14 coating supplier about some short-term coating needs.
15 The other project in Arkansas most certainly will be
16 built. They had a ribbon cutting, groundbreaking a
17 month or so ago.

18 So from my standpoint they're going to all
19 be built.

20 CHAIRMAN PEARSON: Okay. Well, you
21 gentlemen know the business a lot better than I do,
22 but it does sound like there will be a meaningful
23 change in the capabilities of the domestic industry
24 here over the next several years as these new plants
25 come on line.

1 MR. SCHAGRIN: And with the exception of the
2 U.S. Steel facility, I hope I'm representing all of
3 them, Chairman Pearson.

4 CHAIRMAN PEARSON: Of course. Yes. You
5 might wish to represent all, but I understand.

6 MR. SCHAGRIN: We're going to need to bring
7 a lot of new trade cases against nonsubject imports
8 when you add a million tons of supply and you don't
9 have a concomitant increase in demand. There's going
10 to be some serious supply/demand imbalances in this
11 market. I think that's pretty easy to foresee.

12 CHAIRMAN PEARSON: You know, a million tons
13 of capacity, it's a lot, lot more than we ever saw in
14 the original investigation from Mexico and Japan
15 combined, and so you know that I'm not that
16 knowledgeable in the statutes that I actually have to
17 try to apply, so occasionally things strike me that
18 are perhaps unusual, but we don't have to vote to
19 determine whether there's a likelihood of self-
20 inflicted material injury for this injury, do we?

21 MR. SCHAGRIN: I don't remember that being
22 part of the statute. I do believe, though, and I
23 think it was in the testimony of the U.S. Steel
24 witness, and I think it does apply statutorily.
25 Certainly the Commission could conclude that the

1 relief from the unfairly traded imports created an
2 environment that allowed this additional investment
3 plans to be made.

4 Then I guess the question is at the time of
5 your vote since none of these new facilities will have
6 been built, but they will all be built in a reasonably
7 foreseeable timeframe, is whether you're determining
8 just that the industry as presently constituted will
9 suffer recurrence of injury or whether you want to
10 consider that an industry that's going to exist during
11 the reasonably foreseeable timeframe which is going to
12 have hundreds of millions of dollars of new
13 investment, that it may suffer future injury because
14 it's unable to obtain a return on its investment.

15 That is an interesting legal question as to
16 what industry you include in your reasonably
17 foreseeable timeframe.

18 CHAIRMAN PEARSON: Okay. Well, we probably
19 won't be able to resolve all of this here with this
20 panel, but it is an interesting question because as
21 the industry is changing what affect will the
22 increased domestic production have on the ability of
23 any importers to bring product in here? I mean, when
24 you start to supply the domestic market more
25 thoroughly with domestic product then there may be

1 some reduction in imports generally.

2 Mr. Delie?

3 MR. DELIE: We certainly hope so. I mean,
4 that's the goal. We feel that will happen as long as
5 we're on a level playing field. These new facilities,
6 like I said Berg put this in mainly for cost. We want
7 to be the low-cost producer of large diameter pipe.
8 We believe with the existing technology we have in
9 Berg it has some advantages for like I said
10 distributor business, quick change overs and that, but
11 on project business we didn't have that advantage, and
12 that's why we went ahead with this mill.

13 We looked targeting the other large diameter
14 line producers and the nonsubject imports, and as long
15 as they're fairly traded we can replace them. If
16 they're not fairly traded, and by allowing the
17 Japanese to come in and continue to bring in dumped
18 prices we have serious reservations of what will
19 happen in 2009 with the start up of this plant and the
20 continuation to be able to get our return on
21 investment.

22 The major impact here for spiral pipe wasn't
23 the surge of demand to build these plants. Like I
24 said up until the Cheyenne Plains project with El Paso
25 that Larry talked about spiral pipe was not allowed in

1 the U.S. Nobody accepted it. The change in the
2 acceptance of spiral pipe which allowed the lower-cost
3 producer of product to come in the market was the
4 significant factor that changed the thinking about
5 people putting this in.

6 Even without the surge people would be
7 coming in with these new plants trying to target to
8 get the older technologies, the Dura-Bonds out of the
9 market, the Bergs out of the market, the SAW pipes out
10 of the market with the UOE and the traditional long
11 seam mills because they felt they can produce pipe at
12 a cheaper rate. It's the same philosophy Nucor used
13 with all their facilities.

14 They don't care about the market. They say
15 as long as we can get in there and build the widgets
16 better than everybody else, we're going to do it. I
17 think that's a lot of it. That was the background
18 that Berg had in their saying we don't want to be left
19 out, and we want to stay in this business, we have to
20 do this for survival. The fact that the market's
21 improved is even better.

22 It's a great thing to do that, but we have a
23 lot of questions about what will happen in 2009 when
24 all this capacity comes on line. Even with good, you
25 know, demand is it going to be strong enough to take

1 with the imports that are coming in, and then if you
2 add the dumped products coming in we'll back here in
3 another case, which I wish we didn't have to do. I
4 like Roger, but I really don't care to see him that
5 much.

6 CHAIRMAN PEARSON: I understand that.
7 Respondents may argue that it's hard to see causation
8 here between the imports from Japan and Mexico and the
9 imposition of the order and the fortunes of the
10 domestic industry. The orders went into effect some
11 years, what, 2001, and the industry really didn't
12 start doing well until 2006.

13 I think the Respondents may argue that they
14 see more of a causal effect between the overall level
15 of apparent consumption in the United States market
16 and how well the domestic industry is doing, they may
17 see more of a link there than between the fortunes of
18 the industry and subject imports. Could you comment
19 on that issue, please?

20 MR. DELIE: I'll comment again. A few years
21 afterwards, the 2004 and 2005 timeframes, were really
22 bad. They would have been a lot worse, and instead of
23 just Napa closing the facility their may have been
24 several facilities closed without that order in place.
25 When the market did start coming back we were able to

1 start taking advantage of that.

2 If the order wasn't in place 2006 may have
3 been still a bad year for us. So, yes, you can't just
4 say it's all one thing or all the other thing, but I
5 think the order definitely helped us survive the bad
6 time and helped us through 2006 to have a good year.
7 Without that order I'm not sure where Berg would be
8 today if we'd would still be in business.

9 I mean, our lowest production rate as far as
10 volume I think occurred in 2005 I think since the
11 early 1980s when Berg first opened up.

12 CHAIRMAN PEARSON: Mr. Schagrín?

13 MR. SCHAGRIN: Chairman Pearson, I think
14 what belies the truthfulness of Respondents' argument
15 that there's not a causal connection between the
16 reduction in the level of imports and the improvement
17 in the industry as Mr. Delie already talked about
18 demand falling. Really, the Respondents during the
19 period of investigation weren't very responsive to
20 demand changes in the U.S. market.

21 During the original POI demand fell by
22 approximately 500,000 tons over that three year period
23 which is a huge amount, about a 35 to 40 percent
24 decline and subject imports fell by 40,000 tons or by
25 a little over 10 percent, so we don't see that they're

1 going to be responsive to changes in supply and demand
2 in the U.S. market.

3 They have large quantities of product to
4 sell, and if they choose to sell it at dumped prices,
5 which Commerce has told you, then we will see
6 causation of a recurrence of injury regardless of the
7 level of demand in the U.S. market.

8 CHAIRMAN PEARSON: Okay, but I would just
9 say that as I look at the record it appears to me that
10 as apparent consumption changes either up or down that
11 burden of adjustment is shared in one way or another
12 by both the domestic industry and imports from
13 whatever source.

14 Madam Vice Chairman?

15 VICE CHAIRMAN ARANOFF: Thank you, Mr.
16 Chairman. Question about the Mexican industry. In
17 their brief the Mexican producers tell us, and I don't
18 want to exaggerate what they've said, but that they're
19 sort of a derelict industry that nobody has put money
20 into in a long time, that two of the producers can
21 only produce the smallest part of the size range of
22 the subject product.

23 I want to give those who are in the
24 marketplace an opportunity to comment if anybody has,
25 you know, personally visited any of these plants, had

1 any experience with the Mexican product. Is there
2 anything unusual in this industry compared to domestic
3 or global producers or the age and condition of the
4 Mexican producers?

5 Also, is there any reason to believe that
6 revocation of our order might spur investment in the
7 Mexican industry or would it be scared away by the
8 amount of investment that all of you have already made
9 in new North American capacity?

10 MR. DELIE: One thing I'd like to say is
11 something we recently worked on is Berg Pipe, which we
12 consider ourselves a very quality producer and we've
13 been able to meet all the needs in the United States
14 including the very tough specifications in Alaska with
15 the very low Charvy values and side of service, Pemex
16 has recently gone through a specification review and
17 they do not allow our process to be used to make pipe
18 for Pemex, although Tubacero who is saying that they
19 only make low-quality grades is accepted.

20 So that kind of is kind of an unusual
21 statement saying that Berg cannot come in Mexico and
22 produce pipe for Pemex. We are not qualified under
23 their specifications to produce it, yet Tubacero is.
24 So why wouldn't they not try to come into the U.S.
25 market?

1 VICE CHAIRMAN ARANOFF: Okay.

2 MR. SCHAGRIN: If none of the other
3 producers have anything to add about their knowledge
4 of specific Mexican mills I would just state, Vice
5 Chairman Aranoff, I think it was just started in our
6 opening comments, that this entire industry is driven
7 by the capability of producers to make the grade OD of
8 wall thickness demanded by the industry.

9 To our knowledge all the Mexican producers
10 are capable of making the grade wall OD combinations
11 of the majority of demand in the U.S. There may be
12 some portions of demand, just as I talked earlier
13 there's portions of demand in the U.S., particularly
14 under water in the Gulf, that no U.S. producer can
15 satisfy, but the overlap between the Mexican industry
16 and the U.S. industry's ability to supply the vast
17 majority of the market is a complete overlap.

18 There may only be a small part of the U.S.
19 market that these Mexican mills can't meet the grade
20 OD wall thickness requirements of the U.S. customers,
21 and for that we think there's competition and
22 interchangeability in terms of the analysis of the
23 conditions of competition that you would perform.

24 VICE CHAIRMAN ARANOFF: And if they have a
25 lock on Pemex's business there's still capacity beyond

1 that to spare?

2 MR. SCHAGRIN: That's confidential, but that
3 information is contained in your staff report. We
4 also believe a little bit different than the
5 commentary by the Mexican Embassy officials. It's our
6 view that very unfortunately for Mexico, the United
7 States, and Canada and for the world that Pemex is
8 about as close to a basket case as you can get in a
9 major government owned oil and gas company.

10 I think Dr. Blecker had some comments on
11 this in his initial economic analysis. Pemex is
12 drastically underinvesting, and while the Mexican
13 government, we now have a new Mexican government,
14 always talks about the need for Pemex to now ramp up
15 investments the Mexican government has been talking
16 about this for 15 to 20 years during a time in which
17 oil and gas prices have exploded and yet Pemex
18 continues to underinvest.

19 Now, we don't see politically the type of
20 analysis that I think Dr. Blecker cited in his report,
21 and I think the objective analysts, not Mexican
22 governments talking politically, don't believe that
23 Pemex is at a point where it is going to ramp up
24 investment and be building lots of pipelines in
25 Mexico.

1 VICE CHAIRMAN ARANOFF: Okay. Let me switch
2 topics here and turn to Mr. Fisher. Some of my
3 colleagues were asking about the likelihood that all
4 of the planned new domestic capacity was going to go
5 forward. We had answers from most everybody, but I'm
6 not sure that we specifically had a comment on the
7 planned joint venture between Lone Star and Welspun
8 and whether now that U.S. Steel and Lone Star have
9 come together, and I know you said you were going to
10 go forward with the joint venture with the Korean
11 producers in California, what about this other one
12 that was going to be in the southwest?

13 MR. FISHER: I believe that the agreement is
14 off between Lone Star and Welspun. Welspun had the
15 option to go it alone, and they elected to take that
16 option, and so we're not involved in that investment
17 or that joint venture any further.

18 VICE CHAIRMAN ARANOFF: Okay. So your
19 understanding is that you're not involved anymore, but
20 the project itself may still be going forward?

21 MR. FISHER: I believe as Mr. Stupp stated
22 previously they did have a groundbreaking ceremony to
23 my understanding and a ribbon cutting ceremony in
24 Arkansas, but that's all I know. I've really been cut
25 out of that conversation since the election by Welspun

1 was made to go it on their own.

2 VICE CHAIRMAN ARANOFF: Okay. All right.
3 Thank you for that clarification. That's helpful.

4 Mr. Lawrence, you had indicated in my prior
5 round of questioning that your company had done a
6 survey on market demand for or acceptance of the
7 spiral-weld product. I don't know if this is the same
8 survey that the Japanese Respondents were referring to
9 in their briefs when they referred to a market survey
10 of customers, but has that survey been submitted for
11 the record? Can we get you to submit it for the
12 record if it hasn't?

13 MR. LAWRENCE: No. It's not a formalized
14 survey that we're capable of submitting to the record.
15 It was just specific calls that we made at the top
16 levels, and there's not a document that's available to
17 be submitted. Sorry. There wouldn't be a survey that
18 they had referred to because we didn't have one in a
19 formalized fashion in a document that would be
20 submittable. There is no document.

21 VICE CHAIRMAN ARANOFF: Okay. Thank you.
22 Could someone tell me what is the minimum economic
23 plant size for a new spiral-weld mill?

24 MR. LAWRENCE: Well, for us, for Evraz
25 Oregon Steel Mills it was about 185,000 tons. Two

1 forming lines to finish approximately 185,000 tons.
2 Usually they come in 75,000 ton type increments on a
3 single process. There's a different process in which
4 I'm sure Berg will announce as to what they're going
5 to be doing that can up those capacities, but from our
6 standpoint we looked at the 185,000 tons as being the
7 level of activity that we preferred to invest in the
8 market.

9 MR. DELIE: And for Berg, Larry's right, two
10 type plants are being built right now. One is where
11 you have a spiral line that does actually the forming
12 and complete welding of the pipe in the spiral
13 process. In some of the mills we'll typically have
14 two or three lines all making the same size pipe
15 feeding into one finishing floor.

16 Berg's process is using what we call off
17 line welding. We have one spiral line, one spiral
18 machine, and it will be a high-speed welder just doing
19 a small pack weld to hold the can together, going off
20 line and then welding it similar to what we do at Berg
21 on an off line welding capabilities doing inside and
22 outside welding, and we will have three of those
23 lines.

24 Our line, we estimate that roughly about
25 180,000 tons, basically 60,000 tons of capacity off of

1 each one of the off line welders. Again, we've used
2 an average product mix of very lighter wall products
3 because we feel that's what we'll be making on the
4 spiral lines, so if the product mix changes we can get
5 a little bit more tonnage out of it. We think the
6 heavier wall product will go on our Berg facility.

7 VICE CHAIRMAN ARANOFF: Okay. Thank you
8 very much. My light is changing.

9 CHAIRMAN PEARSON: Commissioner Okun?

10 COMMISSIONER OKUN: Thank you. I had a
11 couple of other questions about demand. I appreciate,
12 Mr. Schagrin, you in response to Commissioner Lane had
13 said that you'll look through the different projects
14 that are included in these different projections and
15 evaluate them which I think is helpful.

16 I mean, certainly as you I spent a lot of my
17 earlier career looking at pipeline projects, and they
18 often don't come to fruition when you think they will
19 and many years later there certainly are always
20 competing projects out there, and I agree with you
21 that if one project comes on line in a certain region
22 it probably means something else isn't going to go
23 forward.

24 My question for you would be should we also
25 apply that theory to looking at how much production

1 will come on line globally? In other words, you know,
2 there's all these production facilities being
3 announced in different regions of the world some of
4 which are more or less likely to be stable business
5 environments in the future, so we have that kind of I
6 think you gave a 70 percent discount, seventy percent
7 of what's out there coming on line is probably going
8 to come on line just like these pipelines.

9 Is there anything we should look at when
10 evaluating that?

11 MR. SCHAGRIN: Two answers, but first,
12 Commissioner Okun, like both Senators Murkowski and
13 Governor Murkowski this entire industry shares with
14 them the great desire for that Alaskan pipeline to be
15 built some day in our lifetimes, and we hope that's a
16 very long time horizon and such a time horizon might
17 be necessary for that pipeline.

18 Just to clarify the record the Preston
19 analysis said they only believe that 70 percent of the
20 pipeline projects will be built. We actually don't
21 agree with that number. That's much too high. I
22 think the experience of the executives in this
23 industry is it's more likely that 30 to 40 percent of
24 announced projects would actually get built.

25 As to foreign capacity additions, I mean,

1 you've already heard in the U.S. it seems likely that
2 four out of four plant capacity additions are going to
3 be built. It seems that in China, and I have followed
4 the China pipe industry quite a bit, that virtually
5 all planned new capacity in China always gets built.
6 I think heavy government subsidies and just the nature
7 of the way things are done tend to result in that.

8 It seems, and we can try to clarify this
9 with any additional information we have in our
10 posthearing brief, that the plans for new large
11 diameter pipeline mills in the mid-East and the CIS
12 countries are pretty firm. They seem to be planned
13 capacities with a very high likelihood of being built.

14 So we think unfortunately from a
15 supply/demand perspective if we have new supply with a
16 high degree of certainty maybe 80, 90, 100 percent of
17 it will be built, but on the demand side only maybe 30
18 to 40 percent of projected demand coming on stream.
19 That could lead in the reasonably foreseeable
20 timeframe to a significant imbalance of supply and
21 demand.

22 COMMISSIONER OKUN: Okay. Appreciate those
23 and that clarification on what percent the industry
24 would look at.

25 This may be something that needs to be done

1 in posthearing brief, but if that 30 to 40 percent is
2 also something that is included in any of your
3 business projections, particularly for those who are
4 building new green field plants, if you looked at
5 these different industry publications and then say we
6 think this much capacity has come on line and the U.S.
7 market is going to be expanding by this much, if you
8 can just provide that to me as well so that I can
9 understand what the industry is looking at when they
10 decide to bring capacity on line and looking at global
11 demand as well that would be particularly helpful.

12 MR. SCHAGRIN: We'll do that in our
13 posthearing brief, and I think we already mentioned in
14 our prehearing brief that we were kind of stunned by
15 some difficulties that the EIA had forecasting using
16 mostly FERC applications in forecasting demand even a
17 year out. You know, they seem in some forecasts for
18 2005 as to 2006 to have been off by as much as 40 or
19 50 percent.

20 So we'll continue to look at the information
21 available to us, and we will give you as full analysis
22 as we are capable of in the posthearing brief.

23 COMMISSIONER OKUN: Okay. Then just a
24 follow-up on the spiral-weld, and this may be
25 completely obvious from the answers the industry has

1 given, but when we're talking about these capacity
2 additions that are going to come on line, and you've
3 had a chance to talk about those and it sounds like
4 most of them will come on line, and I've also heard in
5 those responses saying we can compete, I mean, I
6 think, Mr. Delie, if I heard you correctly it's that
7 if you can do the spiral-weld it's low-cost and you're
8 going to kick out some of these nonsubjects.

9 I mean, that is why you see a U.S. market
10 able to support these capacity expansions. I don't
11 want to put words in your mouth, but is that part of
12 what goes on when you're looking ahead here?

13 MR. DELIE: Yes, it is. Yes, it is. Again,
14 if you look at a lot of the inputs coming in for the
15 longitudinal scene we believe with the spiral-weld
16 process bringing in 80 foot pipe without the
17 transportation costs, because transporting large
18 diameter pipe especially from overseas is expensive,
19 we can compete. We're efficient, we can compete.

20 COMMISSIONER OKUN: Okay. Others have
21 comments on that or is that kind of in what you've
22 said as well, in these new facilities coming on line
23 you have an expectation that you're going to be able
24 to take out some of the nonsubject pipe that's here?

25 MR. NARKIN: This is Steve Narkin. That was

1 one of the main points in Mr. Fisher's testimony
2 actually. There are two reasons that we're
3 comfortable discussing in public as to why U.S. Steel
4 is going ahead with that plan, and the prospect of
5 displacing non-subject imports is one of those
6 reasons.

7 COMMISSIONER OKUN: Okay. In evaluating,
8 then, the conditions of the competition that would
9 exist in the U.S. market, if the orders were lifted,
10 does it change at all our analysis from the original
11 investigation on the competition vis-a-vis the
12 Japanese or Japanese and Mexican imports in this
13 market if we've seen this move to spiral-weld
14 acceptance, and some of the product sizes we've talked
15 about, does it change the dynamic vis-a-vis the
16 subject imports at all?

17 MR. NARKIN: Commissioner, we don't think
18 so. Once again, I'm going back to one of the comments
19 that Mr. Huey made in his opening statements that our
20 capacity isn't really our capacity because maybe we've
21 changed our product mix to go lighter because for the
22 people in this industry, there is no doubt that
23 spiral-weld mills are going to be clearly more
24 efficient at lighter walls.

25 The Japanese mills have tended to focus the

1 most on heavier walls. However, if the only reason
2 that their production and capacity is falling is
3 because, unbeknownst to us, but according to Mr.
4 Huey's testimony, the whole Japanese industry has now
5 shifted to lighter walls, and that's why their
6 production and capacity -- then they're obviously
7 telling this Commission that they are ready to come in
8 here and mix it up with the U.S. industry, as
9 presently constituted, and with the new spiral-weld
10 mills for the half-inch, five-eighth-inch walls, and
11 three-eighth-inch walls that the spiral-weld mills are
12 focused on.

13 So we think there is going to be significant
14 competition between the Japanese, Mexican and U.S.
15 industries regardless of the way the U.S. industry is
16 composed, the mix of domestic producers.

17 COMMISSIONER OKUN: Okay. Then, like I say,
18 the accumulation is really the question. I will start
19 with Mr. Blecker or Mr. Schagrin, you may also want to
20 ask about that.

21 Mr. Blecker, in describing the foreign
22 producers in your testimony, you had noted, and I
23 think the record supports that Mexico was a regional
24 producer, whereas Japan is a more global producer.

25 If I look at some of the other record

1 evidence, including from the original investigations,
2 the two countries seem to look different to me. One
3 was very large and then the market dropped out, and
4 one was not. For accumulation purposes, I've looked
5 at these issues in other cases.

6 What would you point me to as being a reason
7 not to exercise my discretion to accumulate on that,
8 Mr. Blecker?

9 MR. BLECKER: I hope I can follow all those
10 negatives.

11 COMMISSIONER OKUN: I know.

12 MR. BLECKER: I think the key thing here --

13 COMMISSIONER OKUN: The next time they write
14 the statute, they have got to take out the double
15 negatives.

16 MR. BLECKER: In Spanish you can use them,
17 but that's another story.

18 The point is that they both compete in the
19 U.S. market, which is what the Commission has to focus
20 its analysis on. So, for Mexico, we are at least
21 potentially, without the order, their largest export
22 market. Therefore, what you should look to on that is
23 their excess capacity.

24 That's confidential information, so I can't
25 discuss it here. But, as Mr. Schagrin has said: If

1 you look at that in the Staff Report, I think you'll
2 see what that picture looks like.

3 For Japan, they are a global seller. After
4 all, they have virtually no domestic market. Almost
5 all their production is for export. I don't think
6 that means you can't accumulate them because they have
7 this continued and abiding interest in the U.S.
8 market. They sell a lot in Canada, which is next
9 door. There is no reason why they would sell in
10 Canada and not in the United States if the orders were
11 not in effect.

12 We believe they have excess capacity for the
13 reasons that we have stated. So if both industries
14 have excess capacity, and an interest in the U.S.
15 market, we think that that establishes in a positive
16 way an argument for accumulation.

17 COMMISSIONER OKUN: Okay. As you can
18 probably see, my red light has come on. So, Mr.
19 Schagrin, I'm going to have to --

20 MR. SCHAGRIN: I can add it if you like
21 later, or in post-hearing we can add it.

22 COMMISSIONER OKUN: Okay, that will be
23 great. Thank You very much.

24 MR. SCHAGRIN: You're welcome.

25 CHAIRMAN PEARSON: Commissioner Lane?

1 COMMISSIONER LANE: Mr. Schagrín, in looking
2 at the proprietary information, it appears that from
3 the years 2003 to 2005, there was low U.S. apparent
4 consumption. Did I understand you correctly that you
5 are attributing that low consumption solely to the
6 Enron debacle?

7 MR. SCHAGRIN: Industry experts have, but I
8 believe that just about everybody in this industry
9 believes that the main reasons for the low consumption
10 in 2003 to 2005 was the Enron debacle affecting.
11 Enron, at the time of their total collapse, they were
12 the largest pipe-line company in the United States.
13 But many other pipe-line companies, who, unfortunately
14 for them, had kind of become enamored in Enron-type
15 business such as energy trading instead of really
16 solid businesses like pushing natural gas through pipe
17 lines really needed time to fix their balance sheets.

18 They just didn't have capital available to
19 deploy for new pipe-line construction. Does anybody
20 on the --

21 COMMISSIONER LANE: Were there projects on
22 the drawing board at that time that because of all of
23 the ramifications of Enron were affected?

24 MR. SCHAGRIN: Very much so, Commissioner
25 Lane. There were a number of projects on the drawing

1 board, as of 2000-2001 that all of a sudden, these
2 companies did not follow through with after they
3 faced, as I say, sufficient losses in energy trading.

4 In some cases, I think in the case of one of
5 the companies coming here this afternoon, I think some
6 pretty heavy fines stemming from litigation from the
7 State of California, and/or utilities in the State of
8 California --

9 COMMISSIONER LANE: Right.

10 MR. SCHAGRIN: -- who felt they were somehow
11 abused in terms of supply or energy-trading
12 activities. It has a really massive deleterious
13 effect. It has taken these companies a long time to
14 get their balance sheets back to pursue pipe lines
15 again.

16 COMMISSIONER LANE: Okay, thank you.

17 During the original period of investigation,
18 the subject imports fluctuated around 200,000 tons and
19 reached a market share of 26 percent. If the orders
20 were revoked, is it your position that the subject
21 imports would be likely to increase to the pre-order
22 200,000 ton level, or greater, and please explain why?

23 MR. SCHAGRIN: Commissioner Lane, it is our
24 contention, based on the record evidence, that they
25 would return at levels much greater than the levels

1 during the original order. That is because of really
2 the fact that this demand is going to be somewhat up
3 in the United States, that the prices are higher now.

4 This is a much more attractive market than
5 it was then because prices are up, largely led by cost
6 increases, but prices are up in the U.S. market,
7 making this market very attractive; that the additions
8 of capacity in the Japanese traditional export markets
9 is going to significantly displace Japanese tonnage
10 from other export markets, and it would come to the
11 U.S. market.

12 And I think, once again, referring to the
13 public tables in the Staff Report that evidence is
14 already very amply demonstrated, particularly as to
15 China, but as well as to other markets.

16 Finally, we actually believe that demand in
17 Mexico is much more likely to decline than it is to
18 increase because of the problems that Pemex has.
19 There, they are not even producing new gas from new
20 areas.

21 You heard about one of the things driving
22 U.S. consumption is we are now drilling for a lot of
23 gas in the Rockies, and we have to get that gas to the
24 market. In the case of Mexico, not only are not able
25 to keep their present fields going, they are not doing

1 a lot of exploration of new gas-production facilities.
2 So there is no reason to build new pipe lines in
3 Mexico.

4 For all those reasons, Commissioner Lane, we
5 believe the import increase would be much greater than
6 the levels during the POI.

7 COMMISSIONER LANE: Okay. Now, I have a
8 follow-up question that I would like a short answer to
9 because then I have a third question that is more
10 important than the second question.

11 In the original investigations, the
12 Commission found that the relatively low prices of
13 subject imports depressed domestic prices to a
14 significant degree. If the orders were invoked, is it
15 your position that the subject imports would be likely
16 to again depress domestic prices to a significant
17 degree? Please explain why?

18 MR. SCHAGRIN: I was going to answer just
19 with yes, and make it very short. But I'll make the
20 explanation very short. Eighty percent of this market
21 is a bid market.

22 If the Japanese and Mexicans are going to
23 sell in this market, it is automatic that they are
24 going to undersell the U.S. industry. They are going
25 to under-bid in order to get that project.

1 When that information gets out to the
2 marketplace that the Japanese and Mexicans are getting
3 tonnage because they're bidding lower prices, U.S.
4 mills that want to improve their order-book status,
5 particularly with all this new capacity coming on, are
6 going to need to bid at lower prices in order to get
7 those bids.

8 I hope that was brief.

9 COMMISSIONER LANE: Yes. Now, can you
10 provide any calculations showing what you believe
11 would be the combined volume and price impact of
12 subject imports on the domestic industry's financial
13 position if the orders were revoked?

14 MR. SCHAGRIN: I think I would ask Dr.
15 Blecker to work with us to provide those kinds of
16 analysis and calculations to you in our post-hearing
17 brief.

18 COMMISSIONER LANE: Okay, thank you.

19 Can you provide any information comparing
20 the U.S. price for subject-welded pipe to the price in
21 other markets? If you can, specific regions or
22 country comparisons would be helpful, such as the
23 price in the Asian markets, the European markets, and
24 South American markets?

25 MR. SCHAGRIN: Yes, I believe that we can

1 utilize information from a publication called *Metal*
2 *Bolt & Research*, which we can receive from our
3 clients. It is best to answer that in our post-
4 hearing brief, Commissioner Lane, and give you
5 whatever information we can gather on that issue.

6 COMMISSIONER LANE: Okay. Looking at Table
7 3-15, regarding the domestic industry's investment in
8 the plant, I am not sure that the numbers make any
9 sense. The 2006 original cost of the industry's plant
10 and equipment is lower than it was in 2003, and has
11 increased only slightly from 2004 to 2006.

12 If the industry has added any significant
13 new-plant investment in recent years, I don't
14 understand why the total original cost plant is not
15 increasing significantly. Can you explain why the
16 original cost of plant in 2005 and 2006 does not grow
17 any more than what is shown on Table 3-15?

18 MR. SCHAGRIN: Commissioner, it is probably
19 best for us to answer that more fully in the post-
20 hearing brief. But I would just have to assume it is
21 already public information that Oregon steel mills
22 shut down the Napa plant in 2004.

23 I think they shut down that facility. You
24 know getting rid of those assets would probably be
25 what accounts for most of that change in the original

1 cost information on the property, plant and equipment.

2 COMMISSIONER LANE: Okay, thank you.

3 What factors, in your opinion, indicate the
4 vulnerability of the domestic industry?

5 MR. SCHAGRIN: There are two or three major
6 factors. One is the poor economic performance over
7 the entire POR. The 4 percent operating margin is
8 just not satisfactory for any industry. So this
9 industry now needs a period in which to benefit from
10 strong demand, and it needs the continued relief.

11 Secondly, we do have present under-
12 utilization of the industry's capacity, which can be
13 expanded so that a lot of the employees who lost their
14 work during this downturn can be rehired, whether they
15 be at facilities like at Dura-Band, at Berg, at
16 ACIPCO, at Stupp, or at Oregon steel mills, to come
17 back into this industry and see that the U., S.
18 industry will be able to expand production, add shifts
19 of workers in order to benefit from stronger demand.

20 So I would say those three areas demonstrate
21 the vulnerability.

22 COMMISSIONER LANE: Yes, sir?

23 MR. NARKIN: Commissioner Lane, this is
24 Steve Narkin. I would just add one thing into the
25 mix, and that is: As you've heard a lot of discussion

1 about, there will be four new plants coming on line
2 relatively soon.

3 There was a pretty important Sunset review
4 case about six or seven years ago involving cement
5 from Mexico and Japan. In that case, the Commission
6 frequently cited that, not as evidence that the
7 industry was vulnerable, not using that word. But
8 that was the clear thrust of what the Commission was
9 saying in that case, that fact that these new
10 investments would be at risk if the orders were
11 revoked is something that the Commission needed to
12 take into account.

13 COMMISSIONER LANE: Okay, thank you.

14 Thank you, Mr. Chairman.

15 CHAIRMAN PEARSON: Commissioner Williamson?

16 COMMISSIONER WILLIAMSON: Thank you, Mr.
17 Chairman.

18 Mr. Narkin, on that last example that you
19 just cited, are you saying that the investments were
20 considered sound, but if the orders were revoked, that
21 they would suddenly become unsound. Would you
22 elaborate a little bit on that point.

23 MR. NARKIN: Well, certainly, they would
24 become a whole lot loess sound if the orders were
25 revoked. I can only speak for U.S. Steel here. But,

1 as the President and Chairman of U.S. Steel explained
2 in a Sunset review a few months back, the ITC's
3 decision in these cases is unpredictable and U.S.
4 Steel does make an investment based on its guess as to
5 how the ITC will decide a particular case. But U.S.
6 Steel does assume that over time, unfair trade will
7 generally be taken care of through this process. I
8 don't know if that answers your question or not.

9 COMMISSIONER WILLIAMSON: Okay. Thank you.

10 To go to the Mexican situation, I think it
11 is in the U.S. Steel brief that there's a statement
12 that Mexican producers have existing customers and
13 channels of distribution, and that that is one reason
14 that they would rapidly come back into this market.

15 I was just wondering about: What's the basis
16 for saying that, given that their exports into this
17 market have been small in recent years?

18 MR. NARKIN: But they have been present in
19 the market. I will have to go back and look, but I
20 think that that's basically the main reason why we
21 said that.

22 I can tell you that in the 16" and under
23 market, they are very present. They have very clear
24 channels of distribution. They are in the market
25 every day, and the import records would reflect that.

1 COMMISSIONER WILLIAMSON: But isn't most of
2 the demand going to be expected in the larger-sized
3 diameters in the U.S.?

4 MR. NARKIN: No, there is considerable
5 demand in the small diameters as well. You gather the
6 gas into the large diameters with small diameters.
7 You start out the weld head with the small diameter
8 and move bigger as you get toward the end customer.

9 COMMISSIONER WILLIAMSON: Okay.

10 MR. SCHAGRIN: I think the point is,
11 Commissioner Williamson, that some of the Mexican
12 mills that produce the subject sizes of line pipe also
13 produce non-subject smaller sizes, and they are very
14 active participants in the U.S. market, and already
15 have existing channels of distribution to sell non-
16 subject line pipe, which is also not subject to any
17 orders in the U.S. market.

18 I think that's the point that U.S. Steel was
19 making in their brief.

20 COMMISSIONER WILLIAMSON: Okay, thank you
21 for that clarification.

22 This may have already been addressed, but
23 what is the current, or likely role of non-subject
24 imports in imposing price discipline in the U.S.
25 market, particularly given the large sizes of Chinese

1 imports, and the potential in the future?

2 MR. NARKIN: Well, like you said, in non-
3 subject, we have seen in our size range in our
4 industry a tremendous increase in non-subject imports,
5 particularly from China in the last two years.

6 I think there is a case pending about
7 structural pipe up to 16", which is actually something
8 that we make. It is not a primary product, but that's
9 just another example. This is made by the same
10 process, the ERW process, in making the structural
11 pipe. I believe we feel like we are being assaulted
12 on all fronts on non-subject from other countries in
13 products that aren't being discussed here.

14 MR. NARKIN: Commissioner Williamson, if I
15 could just add briefly to that.

16 If you look at your data, the AUV data
17 specifically, for non-subject imports with the
18 recognition that AUV data is not perfect, I think you
19 will find that moving from 2005 to 2006, there is
20 essentially no change in that AUV for the non-subject
21 countries, even though you have demand increasing over
22 that same period, which suggests to me that they may
23 be setting, at some point, a ceiling on what the
24 domestic industry could get for their product, if they
25 are not doing that already.

1 MR. LAWRENCE: I would just offer that in
2 the last several years, we have seen, from non-subject
3 countries, a significant increase in shipments to the
4 U.S. These are from countries of origin that
5 heretofore, as I mentioned earlier, had been, and in
6 some cases perceived as secondary or tertiary
7 suppliers to the marketplace for a variety of reasons.

8 At the moment, my view is the pricing levels
9 that we understand some of these non-subject countries
10 that are currently executing orders in the U.S. are at
11 lower levels than some of the others that we have seen
12 here from the domestic producers in some cases.

13 At the same time, it would be my view that
14 the Japanese and the Mexican steel facilities would
15 look to those levels to undercut those to displace
16 them in the market if this order were lifted to try to
17 buy that business back into the marketplace, which
18 would further depress the pricing structure.

19 COMMISSIONER WILLIAMSON: Thank you.

20 I think, in the U.S. Steel pre-hearing
21 brief, there is reference to the home market AUVs of
22 the Mexican suppliers. I was wondering: Does Pemex's
23 relationship with the Mexican government affect the
24 price of the subject pipe in the Mexican market, and
25 does that diminish the usefulness of the AUVs in

1 Mexico for us?

2 MR. DELI: From Berg's standpoint, we
3 believe that it has a very big impact on the prices
4 down in Mexico, that it is almost a closed market to
5 them. Like I said, it's been very difficult for us to
6 get into the Pemex. Berg, which is a well-known
7 quality supplier, has been specifically targeted out
8 of the Pemex specifications.

9 We believe that the prices down in the Pemex
10 that they get in Mexico are artificially higher
11 because they are. So it's like a non-tariff trade
12 barrier to get in and keep the Mexican producers
13 going.

14 MR. NARKIN: Commissioner Williamson, it's
15 Steve Narkin again. I have to be very careful here
16 not to get into confidential information. But in
17 looking at the AUV for their home market sale, you
18 have to consider whether if in fact they have capacity
19 to supply anything beyond the home market. Would the
20 prices in the U.S. be attractive for them to do that?
21 That's about as far as I can go, given the fact that
22 the data is confidential.

23 COMMISSIONER WILLIAMSON: Okay, thank you.

24 CHAIRMAN PEARSON: Commissioner Pinkert?

25 COMMISSIONER PINKERT: I'll come back to

1 something that Mr. Schagrín testified to just a little
2 while ago.

3 You talked about profitability over the
4 entire period of review as not being sufficient. I'm
5 wondering when you look at profitability over that
6 entire period, on an average basis, are you saying
7 it's not sufficient to justify the pending investments
8 that we've heard testimony about?

9 MR. SCHAGRIN: I think it goes to the
10 vulnerability of the industry, in terms of the
11 industry hasn't made a sufficient level of profit over
12 the period of review to be invulnerable, or not
13 vulnerable, to the increased imports that would be
14 sold at less than fair value.

15 I think in some other recent decisions of
16 this Commission, other Sunset reviews, maybe ones in
17 which you didn't join in the majority, that the
18 Commission had said: Gee, if you've been making very
19 high returns over the whole POR, and in particular 25
20 percent to 30 percent returns over the last two or
21 three years, then, even though imports may increase,
22 your profit margins are so high, and you've made so
23 much money, that you're not vulnerable. There is a
24 big cushion for you.

25 I think the record here demonstrates that

1 this industry has very little cushion because of its
2 poor performance over the entire POR, and that makes
3 the industry more vulnerable. I think the new
4 investment proposals, my guess is that each of the
5 companies making those investment proposals has to
6 have made up its own mind about what its return on
7 capital employed will be for those new investments.

8 But I do agree with the point that Mr.
9 Narkin made earlier that certainly the Commission
10 could assume that a significant volume of unfairly
11 traded imports would have an impact not only on the
12 present domestic industry but on the ability of those
13 new investments in capacity to obtain a return on
14 their investment.

15 CHAIRMAN PEARSON: Doctor Blecker?

16 MR. BLECKER: Well, as usual, Mr. Schagrin
17 has largely anticipated what his economist would say.
18 But the decision to make a new investment will be
19 based on the expectations about the returns to that
20 project for that particular company, and not on the
21 average for what already exists for all companies.

22 So those companies going forward must have
23 made that calculation, especially if it's a new
24 technology and it's going to lower costs, and it has
25 the potential to generate an adequate rate of return

1 subject to the price being adequate to cover that.

2 That's where Mr. Narkin's point comes in.

3 So I would support what has just been said.

4 CHAIRMAN PEARSON: Dr. Blecker, I'm
5 wondering, for the post-hearing, whether you might be
6 able to supply an analysis of the relationship between
7 the necessary return on investment, and expected
8 operating margins over the period under which the
9 investment is being considered?

10 MR. BLECKER: We can try if we have the
11 highly confidential information appropriate to do
12 that.

13 CHAIRMAN PEARSON: Thank you.

14 MR. BLECKER: Thank you, Mr. Chairman.

15 CHAIRMAN PEARSON: Mr. Schagrin, this has
16 been touched on a bit already. But, for purposes of
17 the post-hearing, could you just clarify any remaining
18 uncertainties regarding differences in your view
19 between what the Mexican government's representative
20 said this morning, indicating they expect that the
21 demand for large-diameter pipe will increase in
22 Mexico, and the argument that I think you're making
23 that you don't see it increasing, and no doubt there
24 are reasons for that?

25 MR. SCHAGRIN: Will do it in the post-

1 hearing brief. We have our own views but it happens
2 that Dr. Blecker, as a professor of economics, is
3 considered quite a expert on the Mexican economy; and
4 has, over the past year in fact, been invited and made
5 several presentations on Mexican economic growth and
6 the need for changes in the Mexican economic
7 structure.

8 So I'm sure that he can be of great
9 assistance in analyzing the likelihood of demand in
10 Mexico, which is really almost entirely a Pemex-driven
11 demand.

12 CHAIRMAN PEARSON: Very well. I'm sure Dr.
13 Blecker will be happy for another assignment.

14 MR. BLECKER: If I might just say a few
15 words right now. Mexico is in a very ironic
16 situation. It is a major oil exporter; it is
17 currently benefiting from the high prices of the oil
18 it exports. Yet, it is a country with a looming
19 energy crisis.

20 This is a highly discussed subject in
21 Mexico, and among people concerned with Mexico, among
22 which I count myself.

23 The basic problem is, and it's historic and
24 political: Because Pemex, the energy monopoly and
25 government-owned company, controls most of the energy

1 sector, the government has traditionally taken a lot
2 of the revenue out of Pemex for just financing the
3 regular government budget.

4 At present, something on the order of 60
5 percent of all Pemex revenue goes right into the
6 government coffers, which then relieves the taxpayers
7 of having to pay other taxes. As a result, Pemex is
8 simply not invested in what everyone in Mexico agrees
9 needs to be done in terms of drilling, exploration,
10 pipe lines, you name it.

11 So, within a decade or two, the country is
12 going to face a very severe energy crisis if something
13 isn't done. I can supply for the record that there is
14 an article by a friend of mine, a professor at the
15 Latin American faculty of Steelton Sciences in Mexico
16 City, Dr. Alicia Rujana, which says: Look, there are
17 two ways to do this.

18 Basically, you could either have tax reform,
19 what they call a fiscal reform, to replace the Pemex
20 revenue with other taxes; or you could allow foreign
21 investment in, so that the foreign capital can invest
22 in this sector. But that is currently prohibited by
23 the Constitution and by a kind of political consensus
24 of most of the forces.

25 As everyone is going back-and-forth over

1 what to do, at present simply nothing is being done.
2 It is a lot like some of these pipe lines. There are
3 pipe dreams; there are proposals galore; there are
4 bills in the Congress, but there's no consensus.
5 There is no action.

6 So, within a foreseeable future time horizon
7 of what we are talking about here of maybe two or
8 three years at most, there does not look like there is
9 going to be any major reform, which, within that time
10 period, would allow major new construction, drilling,
11 exploration, pipe lines, et cetera.

12 CHAIRMAN PEARSON: Okay, thank you.

13 Mr. Lawrence, earlier you had used the term
14 futures markets in relation to large-diameter pipe.
15 Could you clarify what exactly that means, what type
16 of futures market is there that relates to large-
17 diameter pipe?

18 MR. LAWRENCE: Elementarily, it's simply
19 forward markets what we look out to be 12, 24, 18, 36
20 months ahead. So that's the futures, as opposed to
21 short-term needs for distributors et cetera. Short-
22 term needs are anything that I'd characterize as six
23 months or less.

24 CHAIRMAN PEARSON: So you're not making a
25 reference to --

1 MR. LAWRENCE: There is not a reference to
2 some marketplace that trades swaps for availabilities
3 on allocations or space or anything else.

4 CHAIRMAN PEARSON: Okay. So it's more a
5 reflection of order book and discussion that might
6 need to --

7 MR. LAWRENCE: Correct, on announced
8 projects and where we think we'll fit into an
9 opportunity to supply pipe.

10 CHAIRMAN PEARSON: Okay. Because in
11 agriculture, futures markets have a more specific
12 meaning than that, but that's helpful.

13 My last question for Mr. Wayne Norris, who
14 has sat patiently this whole time. I would have to
15 say that the gentleman, who represents your firm at
16 the front table here, is quite articulate. He's
17 simply not as handsome. He doesn't have the silver
18 along the temples. Maybe he'll get their eventually
19 but he's just behind the curve at the moment.

20 Is it fair to assume that you've spent much
21 of your career serving a customer base that consisted
22 of pipe mills?

23 MR. NORRIS: That's correct. That's how we
24 got involved in the Steelton facility that we
25 currently operate now. In fact we serve U.S. Steel

1 currently with some of our coding mills, and we also
2 serve the Bethlehem Steel facility.

3 We became very knowledgeable of their
4 operation, and are quite close to them, and experience
5 a lot of the problems that they had because they
6 didn't have the money to invest in the facilities. We
7 saw the facility kind of deteriorated over time.

8 When it shut down in 1999, it officially
9 close din 2002, they called me and asked me if we'd be
10 interested in purchasing the facility because they
11 were going down for the count in Chapter 7.

12 At that particular point in time, everybody
13 knows that was the worst time that this industry
14 experienced. We took a great chance at that time. We
15 bought the facility. The facility was slated to go
16 overseas; it was slated to go to China. We bought it
17 and, with the help of the steel workers, resurrected
18 the facility.

19 We invested a lot of time and a lot of our
20 own personal capital and money into bringing this
21 facility back on line. That is probably some of the
22 reasons why some of the questions before were the lack
23 of investment, or the lack of production, part of that
24 was us because we were rebuilding the facility.

25 Currently we are operating two shifts, and

1 we are looking toward a good future. However, we do
2 know that there is lot of competition from the
3 domestic mills with the spiral-weld mills. But we
4 still think we have a niche in that business, and we
5 think we will be a survivor.

6 We did serve a lot of the steel industry,
7 and a lot of these people who are sitting in this room
8 have been my customers over the years. They are also
9 my competitors today as we speak. However, we're
10 flexible. We think we've done a good job, and we
11 think we'll be around for the future.

12 CHAIRMAN PEARSON: Well, thank you. You
13 absolutely anticipated my question there because I
14 wanted you to reflect on the reasons that you got into
15 this business after having served it from not far
16 away, but not being right in the pipe-manufacturing
17 business; and then you're now in that interesting
18 situation of both serving these customers and
19 competing against them. Life was made to be
20 interesting, and I can see that yours is.

21 MR. NORRIS: Yes, it is. We're risk takers.
22 Thank you.

23 CHAIRMAN PEARSON: I think I have no further
24 questions.

25 Madam Vice Chairman?

1 VICE CHAIRMAN ARANOFF: Just one last
2 question. I know my colleagues have asked every which
3 way 'til Sunday about capacity utilization in the
4 industry and its significance. But, in looking ahead
5 at how I'm going to look at likely impact and
6 vulnerability, I'm going to posit something to you and
7 give you the chance to tell me that I'm wrong.

8 But if what I have heard from the testimony
9 this morning is essentially that many of you have made
10 the assessment that it is more economical to build a
11 new spiral-weld plant than it is to put additional
12 shifts onto existing plants in order to bring up the
13 capacity utilization, then, as I look forward to
14 likely impact, shouldn't I be completely discounting
15 the unused capacity at the existing plants of those
16 producers who are bringing new plants on line?

17 Or should I be disregarding it because
18 you've told me that even without subject imports in
19 the market, it's not economical to use that capacity?

20 MR. NARKIN: Vice Chairman Aranoff, this is
21 Steven Narkin. Before letting the Berg pipe witness,
22 who I'm sure will want to talk about this, answer the
23 question, I would just observe that three of the four
24 new plants involve companies that are not in the
25 situation you described.

1 U.S. Steel makes the 18- to 20-inch
2 diameter-inch product, but this will enable them to
3 vastly increase their product range. They could not
4 use their existing excess capacity for the 18- to 20-
5 inch product to supply the large bulk of the market.

6 VICE CHAIRMAN ARANOFF: Okay. That's a
7 helpful description.

8 MR. DELIE: Like he said, I'll answer this
9 one. No, I would like to add the capacity on our
10 facility. And what we were looking at is adding
11 capacity to -- or not really add capacity as to expand
12 our capacity capabilities to be bigger, to grow.

13 I don't want us to keep our company the same
14 size forever. We have to look at what kind of
15 expansion, what can we do? As we said, we've seen
16 more and more products going to the lighter walls, the
17 X80. For us, getting plate on our mill because we
18 don't have an expander makes it more difficult to do
19 that. So we can either invest large sums of money in
20 our existing plant or be able to grow the company,
21 grow our capacity, and be able to make that product
22 that way. That is the way that we decided to go.

23 We see the advantages on cost, but we also
24 see that the Berg Plant has some unique market niches.
25 One is: A typical mill takes 24 to 72 hours to change

1 size, to go from say a 30" to a 36" inch pipe. At
2 Berg, we can do that in 45 minutes, so we have a real
3 unique opportunity in small lot orders.

4 If you look at our order books, we have much
5 smaller order sizes than probably anybody else at this
6 table. We still think we can do that. The plate
7 pricing and quill pricing, if you look at it today
8 there is big difference in plate-to-quill prices. If
9 you looked at it a couple of years ago when the prices
10 were -- in 2003 when steel prices were increasing,
11 you'll find out in the quill prices and plate prices
12 we're about the same.

13 This gives us the opportunity to use either
14 import source. Typically over the long haul, we have
15 seen plate prices be a little bit higher because of
16 the cost structure of the plate versus the steel mill.
17 It gives us the opportunity to go either way, plate or
18 coil.

19 As you go into heavier wall projects, we did
20 the Gulfstream, we can go to about one inch on the
21 X70, depending on the diameters and stuff like that,
22 and we can make some of the heavy walls. We can't go
23 as heavy as some of the Japanese and that's why we
24 have a lot of exclusions.

25 But we can do underwater projects. We feel

1 that we can do what the Berg mill did. So we felt
2 that the spiral mill really complemented our mill
3 better, as we have seen more and more traditional
4 products go onto lighter walls that would make us
5 competitive.

6 It was not just that we're just trying to
7 replace capacity. We're looking to grow the company;
8 we're looking to be able to offer alternative
9 solutions, and be more competitive as the spiral pipe
10 starts hitting the Unites States on the lighter-weld
11 projects to be more competitive there, yet still find
12 a niche market for Berg Steel and try to expand that
13 if we can.

14 So we're not up to capacity at Berg Steel
15 Pipe. You know, in my perfect world, I'd be running
16 both facilities at three shifts, and producing 500,000
17 and 600,000 tons. That's what we're looking to do,
18 you know. That's our goal.

19 VICE CHAIRMAN ARANOFF: Okay, Mr. Noland?

20 MR. NOLAND: Yes, one thing I'd like to say
21 is, I don't think there's anybody here on this panel
22 that's not concerned about four spiral-weld mills
23 being built in the United States. This is something
24 that's very concerning.

25 But as we saw the forecast, I mean even our

1 own company, we investigated building a spiral-weld
2 facility to do the same thing. We decided that the
3 return was not there. I think we're somewhat happy
4 about that decision, now that we see all the people
5 who did make the decision. But these decisions were
6 made independent of one another. They were pretty
7 much following the same path at the same time.

8 You also have to understand that two of the
9 companies that are building the facilities are
10 companies from outside the United States, who don't
11 have any current facilities here. So I don't know
12 that Berg and U.S. Steel have any other options than
13 saying, we're going to do the best we can; and of
14 course, we feel like we can compete.

15 But there's certainly an understanding among
16 all of us that we possibly have overshot the mark here
17 and that too much capacity could be added. It's going
18 to be a struggle, and removing this order will make it
19 even worse. So I think that's what we're saying.

20 VICE CHAIRMAN ARANOFF: Okay.

21 MR. SCHAGRIN: Vice Chairman Aranoff, I
22 think you've gotten a lot of very excellent answers
23 from the industry. But none maybe got to the
24 prefatory part of your question which was, tell me
25 why what I'm about to say is wrong. So let me just

1 close the loop by getting back to where you started.

2 I think the reason that it is incorrect is
3 that there are seven members of this industry. That's
4 right in the staff report. It's a fairly small
5 industry.

6 There's seven players. Six out of the seven
7 are not going to be in a position where they will have
8 both the spiral-weld and the UOE mill, so that they
9 will be, I think, for lack of a better phrase to
10 paraphrase what you were saying, essentially
11 cannibalizing their existing capacity.

12 Then, you know, why should you find that
13 subject imports will have an effect on the present
14 capacity if the members of the industry building these
15 new mills are already cannibalizing their capacity?

16 Well, for six out of seven, that doesn't
17 apply, and that's the main reason that the question
18 you posited shouldn't be applied by either you or
19 other members of the Commission, because just the
20 factual basis doesn't apply.

21 The imports are going to compete with all of
22 the presently constituted members of the industry and
23 their present facilities, as well as, just in the case
24 of Berg, Berg's co-existing UOE facility and their
25 spiral-weld facility. So I hope that helped finish

1 the answer to your question.

2 VICE CHAIRMAN ARANOFF: Okay, I appreciate
3 all those answers very much and thank the morning's
4 panel for all of your answers; thanks, Mr. Chairman.

5 CHAIRMAN PEARSON: Commissioner Okun?

6 COMMISSIONER OKUN: I have no further
7 questions, but I do want to thank all of you for the
8 answers you have given this morning and this
9 afternoon.

10 CHAIRMAN PEARSON: Commissioner Lane?

11 COMMISSIONER LANE: I have just one
12 question, Mr. Schagrin. So if you choose to answer
13 it, you have 10 minutes.

14 (Laughter.)

15 COMMISSIONER LANE: During the original
16 period of investigation, employment in the domestic
17 industry dropped from over 1,300 employees to around
18 500. Currently, employment levels are still around
19 500. If the orders were revoked, would you predict
20 that employment levels would decline, and if so do you
21 have any specific quantification of the potential
22 level of that decline?

23 MR. SCHAGRIN: First, I think that the
24 employment levels have fairly closely followed the
25 production and shipment levels for this industry

1 which, as I stated my opening statement, in spite of
2 comments by Respondents that this is a booming demand
3 market and in spite of what is factually correct as
4 significant under-utilization of totally available
5 domestic capacity, this industry is producing and
6 shipping significantly less tons than it did during
7 the POI. That's why employment is down.

8 Yet, even with roughly the same number of
9 employees as the end of the POI, I think that's one of
10 the reasons that productivity has fallen; that the
11 industry is not producing more with that same level of
12 employees.

13 As to the impact on employment of
14 revocation, just with the size of this market, which
15 is presently about 1.6 million tons a year, which we
16 think will grow, you know, slowly, probably peaking in
17 2008; maybe in the two or two and-a-quarter million
18 ton mark and then be declining, the addition of three,
19 four, five, six hundred thousand tons of unfairly
20 traded imports into this market place, which the
21 foreign industries are capable of shipping here, will
22 have a serious negative impact on employment because
23 there's going to be mill closures, and that's going to
24 significantly reduce employment. I think I did that
25 in about a minute and-a-half, and I seed the other

1 three and-a-half to further questions or anything else
2 the Commission would like to hear.

3 COMMISSIONER LANE: Okay, thank you, does
4 anybody else want to add to his answer?

5 (No response.)

6 COMMISSIONER LANE: If not, thank you, Mr.
7 Chairman.

8 CHAIRMAN PEARSON: Commissioner Williamson?

9 COMMISSIONER WILLIAMSON: Thank you, Mr.
10 Chairman, I have no further questions, and I also want
11 to thank the panel for their answers.

12 CHAIRMAN PEARSON: Commissioner Pinkert?

13 COMMISSIONER PINKERT: I'd just like to join
14 my colleagues in thanking the panel, and I'm looking
15 forward to the post-hearing submission.

16 CHAIRMAN PEARSON: Madam Vice Chairman?

17 (No response.)

18 CHAIRMAN PEARSON: No further questions from
19 the dias?

20 (No response.)

21 CHAIRMAN PEARSON: Do members of the staff
22 have questions for this panel?

23 MR. CORKRAN: Douglas Corkran, Office of
24 Investigations; thank you, Chairman Pearson. Staff
25 has one question, which will probably be for post-

1 hearing brief, unless somebody has very strong
2 memories of this.

3 The Florida Gas Phase IV bidding, which took
4 place year ago -- if somebody can remember who won
5 that contract, that would be very helpful. But like I
6 said, that can be submitted in post-hearing brief.

7 MR. SCHAGRIN: I think you'll remember I
8 started this by saying, you know, there's a benefit to
9 325 years of experience and there's some negative
10 aspects. One of those might be long-term memory. So
11 I think we'll answer that in our post-hearing brief.
12 I think Mr. Williamson will probably be able to get an
13 answer after he researches it, and we'll get that to
14 you in our post-hearing.

15 MR. CORKRAN: Thank you, and thank you, Mr.
16 Chairman. Staff has no further questions.

17 CHAIRMAN PEARSON: Does counsel for the
18 Respondent have any questions for the domestic
19 industry panel? I see a negative response.

20 MR. HUEY: No, Mr. Chairman, thank you.

21 CHAIRMAN PEARSON: It's lunchtime. Okay,
22 why don't we break now and then reconvene at 2:15? Be
23 mindful that the committee room is not secure, so take
24 with you anything that you would not like others to
25 see. Have a good lunch and we'll see you in a little

1 less than an hour.

2 (Whereupon, at 1:20 p.m., the hearing in the
3 above-entitled matter was recessed, to reconvene at
4 2:15 p.m., this same day, Wednesday, July 25, 2007.)

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A F T E R N O O N S E S S I O N

(2:18 p.m.)

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2
3 CHAIRMAN PEARSON: The hearing will
4 reconvene. Mr. Secretary, are there any preliminary
5 matters?

6 MR. BISHOP: No, Mr. Chairman, the second
7 panel, those in opposition to the continuation of
8 orders, has been seated. All witnesses have been
9 sworn.

10 CHAIRMAN PEARSON: Excellent, and who is
11 running the show this afternoon?

12 MR. HUEY: Good afternoon, Mr. Chairman and
13 Commissioners, Bob Huey is running the show. But Mr.
14 Schagrin and I agree on one simple matter before the
15 Commission. That is, this is a question of fact for
16 the Commission. It's a factual analysis. With that,
17 I'm going to turn it over to the panel of the
18 customers and INGAA with Mr. Pierce. Thank you very
19 much.

20 MR. PIERCE: Good afternoon, Mr. Chairman,
21 Commissioners.

22 CHAIRMAN PEARSON: Good afternoon, Mr.
23 Pierce; please proceed.

24 MR. PIERCE: I'm Ken Pierce of Vinson &
25 Elkins, counsel to INGAA, the Interstate Natural Gas

1 Association of America. INGAA buys and uses much of
2 the line pipe consumed in this country.

3 Joining me is the most knowledgeable panel
4 that I'm certain the Commission will find informative
5 and credible. This panel is uniquely positioned to
6 aid the Commission in checking the voracity of what
7 Petitioners are claiming about projected line pipe
8 demand and available supply.

9 Our panel includes some of the largest line
10 pipe purchasers in the country, El Paso and
11 TransCanada; a Japanese producer and a Mexican
12 producer; and Respondent's economist and lawyers.

13 Leading the panel off today will be Mr.
14 Donald Santa, INGAA's President. Mr. Santa was
15 formerly counsel to the Senate Energy Committee, and
16 was a FERC Commissioner. He and all the natural gas
17 pipeline industry experts on this panel will be happy
18 to answer any questions from the Commissioners or
19 staff at the conclusion of our testimony; thank you.

20 CHAIRMAN PEARSON: Let me just ask at the
21 start, Mr. Santa, does the FERC have such long
22 hearings as we do?

23 MR. SANTA: The Commission utilizes ALJs
24 quite a bit.

25 CHAIRMAN PEARSON: Okay, do we have a live

1 mike there? Okay, please proceed.

2 MR. SANTA: Good afternoon, Mr. Chairman and
3 members of the Commission. I am Donald Santa,
4 President of the Interstate Natural Gas Association of
5 America, or INGAA. INGAA represents virtually all of
6 the interstate natural gas transmission pipeline
7 companies operating in the United States.

8 Its members transport over 95 percent of the
9 nation's natural gas through a network of 200,000
10 miles of interstate pipelines. INGAA members are huge
11 purchasers of the welded, large diameter line pipe
12 that is the subject of this sunset review. They are
13 likely to be even bigger purchasers of line pipe over
14 the next two to three years, if not longer.

15 My purpose here today is to inform the
16 Commission why demand for welded large diameter line
17 pipe in the United States and abroad is projected to
18 be extremely strong; so strong, in fact, that INGAA
19 has concerns about the ability of its members to
20 source line pipe in the volume necessary to sustain
21 crucial energy infrastructure development on a timely
22 and efficient basis.

23 First, a few quick points about natural gas.
24 Natural gas is an important pillar of the U.S. energy
25 and economic security, accounting for nearly a quarter

1 of the energy consumed in the United States. It is
2 projected to retain this share of U.S. energy
3 consumption for the foreseeable future, even as
4 overall energy consumption is projected to rise by
5 more than four percent between 2006 and 2010.

6 Natural gas is also the cleanest burning
7 fossil fuel, making it an attractive alternative to
8 less benign fossil fuels in an era of emerging
9 environmental consciousness. It helps explain why key
10 emitters of carbon emissions, such as electricity
11 generation and transportation, are projected to
12 increase their consumption of natural gas by over 16
13 percent between 2004 and 2010. I note there was some
14 discussion of natural gas and electric generation this
15 morning, and I'd be happy to respond to questions on
16 that.

17 Because of these broader economic and
18 environmental concerns, there also are government
19 policies that tend to promote private sector
20 development of natural gas resources, and thereby the
21 infrastructure necessary to carry those resources to
22 markets in which they are needed.

23 For example, the Federal Energy Regulatory
24 Commission, the Federal Agency with jurisdiction over
25 pipeline infrastructure development, has expressed

1 that agency's mission as to "promote the development
2 of a strong energy infrastructure" and "stimulate
3 appropriate infrastructure development". Also, I can
4 comment later on the FERC certificate application
5 process and the significance of that as an indicator
6 of demand for natural gas pipeline infrastructure.

7 Large diameter line pipe demand is derived
8 from the demand for the energy products it transmits.
9 This derived demand has two components: number one,
10 the need to increase or improve pipeline
11 infrastructure for existing sources of supply to meet
12 growth and demand; and number two, the need to install
13 new pipeline systems to tap new sources of supply, as
14 mature sources plateau or decline.

15 To meet sustained or growing demand for
16 natural gas, natural gas consumers and the shippers on
17 interstate pipelines cannot rely solely on the
18 existing transmission infrastructure.

19 First, as demand rises, it is often
20 necessary to expand the transmission network to carry
21 gas to this new demand. Thus, while a 1.1 percent
22 increase in natural gas demand between 2007 and 2008
23 might seem modest at the national level, it masks much
24 higher demand growth in regions where new
25 infrastructure is necessary.

1 Consider Florida, one of the largest energy
2 consuming states with one of the fastest growing
3 populations. Its demand for electricity generation is
4 expected to grow by approximately 58 percent between
5 2002 and 2020, and electric utility generation will
6 cause a 92 percent increase in Florida's natural gas
7 requirements over the next 10 years, with new
8 generation capacity editions expected to be 80 percent
9 natural gas fired.

10 Second, and by far the most important
11 determinant of line pipe demand, is the reality that
12 sources of natural gas supply will shift over time.
13 Mature sources decline, and new sources be developed
14 to meet sustained and growing demand.

15 Pipelines, however, are static. You do not
16 pick them up and move them to meet shifting sources of
17 supply. Entire new pipeline systems must built, and
18 existing systems, must be re-configured to accommodate
19 changes in flow patterns, which is why we are
20 witnessing a tremendous amount of pipeline development
21 activity.

22 U.S. natural demand growth and maintenance
23 can only be met by the development of untapped
24 domestic supplies, such as reserves in the Rocky
25 Mountains, the mid-continent, the Gulf of Mexico, and

1 ultimately Alaska, new sources of imported Canadian
2 natural gas, and by significantly increased imports of
3 liquified natural gas or LNG.

4 Let me focus briefly on LNG imports. U.S.
5 LNG imports for 2007 and 2008 are projected to be
6 substantially higher than in 2006 with forecasted year
7 over year increases of 34.5 percent and 38.6 percent
8 respectively. U.S. Energy Information Administration
9 modeling suggests that growth in LNG imports will
10 continue through 2012 and beyond.

11 As LNG import volumes increase, transmission
12 infrastructure also must expand to handle the
13 increased volume, with certain projects already in
14 different phases of implementation. A 2004 study
15 prepared for the INGAA Foundation estimated that 10
16 new LNG terminals will be required to keep pace with
17 market demand for additional import volumes.

18 Due to difficulties citing LNG terminals in
19 densely populated areas, many of the new terminals are
20 likely to be remote from the major consuming markets.
21 This will necessitate expanding pipeline capacity in
22 order to carry new LNG supply to consumers.

23 According to some estimates, we could add
24 over 12,000 miles of new pipeline over the 2007 to
25 2009 period, even after taking into account projects

1 that do not move beyond the FERC application stage.

2 Because of pent-up demand for pipeline
3 infrastructure that has now exploded and what we see
4 in the future, INGAA believes actual pipeline
5 installation will occur at a higher rate than seen in
6 previous years, when you take into account all the
7 fundamental supply and demand drivers in the market.

8 The 12,000 mile estimate does not even take
9 into account demand driven by the replacement of
10 deteriorating or inefficient pipe. Reports
11 commissioned by the INGAA Foundation estimate that
12 this replacement pipe may amount to another 10,000
13 miles of pipeline, at a cost of \$19 billion in 2003
14 dollars, over a sustained 10 year period.

15 Thus far, I have focused only on pipe demand
16 in the natural gas sector. I wanted to dispel any
17 notion that the natural gas pipeline industry is the
18 only consumer of large diameter line pipe. To the
19 contrary, it competes heavily against pipe demand in
20 the petroleum sector.

21 Announced oil pipeline projects in the
22 United States over the 2007 to 2009 period also are
23 significant. If you look up north, further
24 development of Canada's oil sands resources could have
25 a massive impact on the North American market for

1 large diameter pipe.

2 Proposals are on the table for as much as
3 21,000 new miles of oil pipeline, associated with
4 Canada's oil sands, to be potentially installed over
5 the 2007 to 2011 period.

6 In many ways, what is being experienced in
7 the oil pipeline market mirrors what is occurring in
8 the natural gas pipeline market. New sources of
9 supply are necessitating the development of new
10 pipeline infrastructure to link supply with markets.

11 Finally, you have to look overseas' demand,
12 and its impact on the flexibility of U.S. pipelines to
13 source line pipe. Given growth rates in energy
14 production and consumption, particularly for natural
15 gas and petroleum, pipeline projects will increase
16 worldwide.

17 As noted in the Commission's staff report,
18 outside of North America, there are over 58,000 miles
19 of oil and gas pipelines under construction or in the
20 planning stages.

21 In sum, there is an extremely tight market
22 for large diameter line pipe; one that we see
23 continuing for a prolonged period of time. All of
24 these facts beg the question that I believe goes to
25 the heart of this investigation: do U.S. pipe mills

1 have the capacity to supply the sustained and
2 substantial growth and demand? Given my appearance
3 here today, I think it is clear that INGAA has serious
4 reservations.

5 The INGAA Foundation commissioned a report
6 back in 2005, the so-called Jacobs Study, that
7 assessed line pipe capacity in the North American
8 market. It is Exhibit 16 of our brief. The domestic
9 pipe industry appears to be claiming that this report
10 is confirmation that there is an adequate supply of
11 domestic large diameter line pipe to meet demand in
12 this market. That is an inaccurate characterization
13 and a very selective reading of what the report
14 states.

15 It's apparent to an objective view of the
16 Jacob's study that it lists mill capacity on a
17 nominal, that is, theoretical basis, with total North
18 American capacity rated at 2,955,000 tons. This
19 number exceeds pipe demand estimates for the U.S.
20 market, but it is a North American figure; not a U.S.
21 capacity figure.

22 When focusing on U.S. pipe capacity, the
23 Jacobs Study suggest a capacity of 1,795,000 tons,
24 which still exceeds the capacity reported by the U.S.
25 mills to the Commission by over 400,000 tons. A major

1 reason for this discrepancy is the fact that the
2 Jacobs Study includes capacity for pipe under 16
3 inches.

4 Ultimately, when you narrow the Jacobs
5 Report to the product that is the subject of this
6 investigation, you arrive at a capacity factor that is
7 very close to what the domestic mills have reported to
8 the Commission; a number that like the Jacobs Study is
9 a close approximation of nominal rather than real
10 capacity.

11 In this regard, the Jacobs Report casts
12 considerable doubt on what nominal capacity can
13 actually tell you about potential supply. First, the
14 report states that, "Aggregating total manufacturing
15 capacity for all sizes into a single estimate can be
16 dangerously misleading. The capacity to manufacture
17 larger diameter pipe can be filled up quickly by a few
18 large orders, even while there might be large amounts
19 of unused capacity in the smaller diameter mills."

20 Second, the report goes on to state that,
21 "The estimated capacity for some of the pipe mills may
22 be overstated. Several of them have not produced
23 volumes of pipe at their stated capacity level for
24 many years, if ever."

25 In light of these findings, the Jacobs Study

1 on more than one occasion observes the probability of
2 tight supply for pipe of 24 inches or above over the
3 next two to three years. This is an objective
4 provision, based on the facts available in 2005.

5 We now know that the market in 2006 was very
6 strong, and we have a much clearer picture of where
7 the market is likely to head through the rest of 2007,
8 and at least through 2009.

9 So will there be enough pipe to supply the
10 current and projected U.S. demand through 2009 and
11 beyond? In an attempt to answer this question, I
12 think you can perform the same rough analysis of the
13 domestic industry's capacity utilization numbers as I
14 have done with the Jacobs Study.

15 Again, the Jacobs Study's capacity numbers
16 are roughly equivalent to the numbers reported by the
17 domestic industry. I have already covered what the
18 Jacobs Study said about those numbers.

19 So when you see the domestic large diameter
20 line pipe industry reporting a 42 percent capacity
21 utilization rate in 2006, there has to be some
22 skepticism. One need only turn to the statement
23 domestic producers have made to the press about full
24 order books to know that their capacity claims cannot
25 be realistic.

1 Based on market reality, you can see why
2 INGAA is here today, and why we're concerned about the
3 future supply in light of projected demand. This
4 concludes my prepared remarks, and I'd be happy to
5 respond to any questions that you might have.

6 MR. MORSE: Chairman Pearson and members of
7 the Commission, good afternoon, my name is Henry
8 Morse. I'm the Director of Project Development at Gas
9 Transmission Northwest, a wholly-owned U.S. subsidiary
10 of TransCanada, with headquarters in Portland Oregon.
11 In my position, I'm responsible for the development,
12 including permitting, of all new pipeline projects for
13 TransCanada in the Pacific Region of the U.S.,
14 including working with the supply chain management
15 department to make decisions on when and from whom to
16 purchase pipe for these projects.

17 With me today is Catherine Paul, Manager of
18 TransCanada's Supply Chain Projects. Catherine is
19 most directly responsible for identifying our sourcing
20 solutions of large diameter line pipe to meet the
21 needs of our current and future projects. We are here
22 today to speak to you on behalf of TransCanada, and
23 primarily its U.S. affiliated pipeline systems.

24 TransCanada is a leader in the development
25 and operation of North American energy infrastructure.

1 Our network includes more than 36,500 miles of
2 pipelines, that access virtually every major gas
3 supply basin in North America.

4 TransCanada is the owner and/or operator of
5 over 16,400 miles of gas transmission pipeline in the
6 United States. Our U.S. operations, with close to
7 1,400 employees, include Gas Transmission Northwest;
8 North Baja Pipeline which, by the way, is the pipeline
9 that connects to the only West Coast LNG terminal in
10 North American; Great Lakes Gas Transmission; Northern
11 Border Pipeline Company; Portland Natural Gas
12 Transmission System; Tuscarora Gas Transmission; and
13 the recently acquired A&R Pipeline.

14 Our U.S. systems are capable of delivering
15 over 12.2 billion cubic feet a day of natural gas to
16 the U.S. markets that we serve. This represents
17 approximately 16 percent of the average U.S. daily
18 consumption.

19 There is a reason pipelines are called
20 critical energy infrastructure. They are crucial to
21 the economic vitality of the United States, because
22 they are the safest and most economic way to bring a
23 variety of energy sources to consumers; not just
24 natural gas, but petroleum and gasoline and a long
25 list of other fuels.

1 I'd like to focus my remarks on four areas:
2 TransCanada's recent and future needs for pipe;
3 TransCanada's assessment of U.S. mill capacity
4 available in the foreseeable future; mill capacity
5 utilization; and TransCanada's experience with U.S.
6 mills unable or unwilling to produce the higher
7 strength steel pipe that TransCanada prefers to use.

8 TransCanada has been involved in the pipe
9 market since the 1950s. With the exception of the
10 development and testing of high strength steels such
11 as grades X80 and above, the majority of TransCanada's
12 pipe purchases have been from North American line pipe
13 manufacturers throughout its history. Currently,
14 TransCanada has a number of pipeline projects in
15 motion, both petroleum and natural gas. In today's
16 market, we are very concerned about three things: how
17 much pipe can we get, when can we get it, and how much
18 is it going to cost?

19 The answer to these questions will impact
20 what gets built and when. So let's put some numbers
21 to it. TransCanada is currently purchasing more than
22 700,000 tons of steel pipe for construction of known
23 projects during the next three years, totaling over
24 1,800 miles. This is for both oil and gas pipelines.

25 Specifically, we are preparing to build the

1 Keystone Oil Pipeline, which originates in the Alberta
2 oil sands and extends to existing refineries in the
3 U.S. heartland. That project is going to prove very
4 important to America's energy security, and I don't
5 need to remind you of the value of having an abundant
6 and stable supply of petroleum available from a
7 friendly neighboring country.

8 We are also expanding our Canadian gas
9 pipeline network to connect additional supply to meet
10 increasing demands in both Canada and the United
11 States. To be very candid, we are having great
12 difficulty acquiring all of this pipe from North
13 American suppliers, due to technical, commercial, and
14 production constraints.

15 Looking further in the future, oil and gas
16 projects over the next six years by TransCanada alone,
17 could generate demand for an additional 1.5 million
18 tons or more. That represents approximately 2,700
19 miles of oil and gas pipeline. Just to be clear, none
20 of this anticipated demand relates to either the
21 proposed MacKenzie Delta or Alaskan pipelines.

22 The total volume of projects currently under
23 evaluation by TransCanada, including these
24 megaprojects, could exceed five million tons or 15,000
25 miles of pipe over the same six year period. Many are

1 intended to meet U.S. demand for energy.

2 Let me emphasize, these numbers represent
3 TransCanada forecasted demand only, and do not factor
4 in requirements of any other pipeline and energy
5 infrastructure companies.

6 Let me state emphatically that TransCanada
7 has a preference to get its pipe from U.S. and
8 Canadian mills whenever it is available in the
9 quantities and the specifications that TransCanada
10 requires.

11 Overseas suppliers can help meet any
12 shortfall in mill capacity in the U.S., but that
13 prospect has its challenges, including significant
14 logistical costs and risks involved with bringing pipe
15 from foreign markets.

16 These costs involve an additional 15 to 35
17 percent of the cost of bare pipe for transportation,
18 and the risks involve significant delays as a result
19 of the long distances the pipe must be transported.
20 As a result, TransCanada has and will continue to
21 prefer to buy pipe from North American manufacturers.

22 Based on TransCanada's current interactions
23 with the pipe mill operators, our view is mill space
24 in Canada and the U.S. is currently booked well into
25 2008, and some mills are now booking into 2009 and

1 even 2010. The lead times to first delivery have
2 ballooned from historical levels of three to five
3 months to periods of 12 to 24 months.

4 Because of the current tightness in the
5 market for line pipe, companies like TransCanada are
6 in the position of having to take market positions in
7 advance of receiving firm regulatory approvals for
8 projects, and sometimes even before final commercial
9 arrangements are completed.

10 My own personal experience exemplifies the
11 significant changes in the market over the last five
12 years. In 2001, for a project in California that
13 required 80 miles of 30 and 36 inch diameter pipe, we
14 made a commitment to a mill approximately nine months
15 in advance of need.

16 No deposit was required. We placed a formal
17 order five months out. We got the pipe on schedule
18 and proceeded to construction. Let's contrast that to
19 a project that I'm working on today that involves 200
20 miles of 36 inch diameter pipe.

21 We are on the cusp of a two year formal
22 permitting process, and hope to start construction in
23 mid-2010. I might point out that the permitting cost
24 over this two year period is approximately \$30
25 million. Proceeding with a project through the

1 permitting process is not an undertaking that any
2 pipeline company takes lightly.

3 I've been informed that I might need to
4 order pipe within the next six months, to have any
5 hope of getting it in time for construction in 2010.
6 In other words, I'm in the posture of ordering pipe 18
7 months in advance of knowing whether I've even got an
8 approved project.

9 It is our view that for the next several
10 years, given current commitments to mills and the
11 number of pipeline projects that TransCanada and
12 others are pursuing, domestic mills will have all the
13 business that they can handle.

14 One thing I want to comment on relates to
15 how mills report their capacity utilization. Mills
16 state their capacity in terms of tons. If a mill is
17 asked to produce pipe with a smaller diameter and/or a
18 thinner wall thickness than their maximum capability,
19 it distorts the reported output of pipe as a function
20 of stated capacity.

21 Another way of saying the same thing is that
22 a mill can operate 24 hours a day, seven days a week,
23 and still report that it is operating at less than
24 full capacity, it if happens to be producing pipe with
25 a smaller diameter or a thinner wall thickness than

1 its overall capability.

2 Announcements of incremental mill capacity
3 and construction of new mills could alleviate some of
4 the shortfalls in domestic capacity. But history
5 tells us, however, that mill completion dates are
6 often optimistic, and that many projects simply do go
7 away. It can also happen that when a mill does come
8 on line, it still takes quite a long time for it to
9 begin to produce consistent quality pipe.

10 Even with the additions of incremental mill
11 capacity, our analysis concludes that over the next
12 three years, there will still be inadequate mill
13 capacity to meet project market demand. Supply
14 constraints will persist, even after these new
15 proposed mill developments.

16 These supply constraints are particularly
17 acute today in high strength pipe. TransCanada has
18 been a leader in the use of X80 pipe, a kind of pipe
19 that uses stronger steel and, as a result, requires a
20 thinner wall thickness to operate at the same pressure
21 as lower strength steel with thicker walls.

22 Using this higher strength steel is becoming
23 the technological norm when such pipe is available,
24 and TransCanada does it because it allows projects to
25 be built using less total steel, which helps reduce

1 overall cost.

2 But not every mill is interested today in
3 making pipe using X80 steel. If TransCanada wishes to
4 construct pipelines using this higher strength steel,
5 which lowers costs and also conserves resources in the
6 form of steel, it is often required to procure this
7 pipe from foreign mills that produce it.

8 In conclusion, TransCanada believes that the
9 U.S. markets should be open to all possible sources of
10 line pipe. It is our view that the domestic markets
11 will not be harmed by having additional suppliers in
12 the market. The demand in excess of domestic output
13 will continue into the foreseeable future.

14 Finally, TransCanada is persuaded that
15 domestic mill producers will continue to enjoy the
16 competitive advance -- I would say the significant
17 competitive advantage conveyed by their proximity to
18 the many North American projects already announced on
19 and on the drawing boards.

20 I thank you for this opportunity to address
21 you today. We'll be happy to answer questions later.

22 MR. GILLESPIE: Good afternoon, I'm John
23 Gillespie, Vice President of Supply Chain Management
24 for El Paso Corporation's regulated pipeline.

25 El Paso has the largest interstate gas

1 pipeline system in the U.S., with over 43,000 miles of
2 pipelines in 27 states, from California to Florida and
3 from Texas to New Hampshire.

4 I am joined today by David Fisher, who is a
5 principal procurement specialist in our supply chain
6 management group. David has over 20 years of
7 experience with line pipe, including supplier quality
8 assurance, pipe mill inspections and strategic buying.

9 Today, David and I represent the over 2,800
10 employees of El Paso's Pipeline Group, who operate a
11 safe and efficient interstate pipeline system. Our
12 presence before the Commission today is to share our
13 perspective on the current market and the projected
14 need for large diameter line pipe over the next three
15 to five years.

16 It is critical that pipeline companies have
17 the ability to obtain the pipe we need when need it.
18 All things being equal, El Paso prefers to source from
19 domestic suppliers. Let me explain our process for
20 selecting pipe mills, which is based on quality,
21 availability, and total costs.

22 Historically, quality has been handled in
23 advance of bidding events through a rigorous
24 manufacturer qualification program. The qualification
25 program includes a quality document submittal review,

1 verification of an API monogram license, an ISO 9,000
2 certification, and an on-site physical audit of the
3 facility.

4 Due to the current market conditions, where
5 most prequalified line pipe suppliers have ordered
6 bookings with 18-plus lead times, we now solicit bids
7 from mills that have not gone through our
8 prequalification process. If the non-prequalified
9 bidder is competitive, we will then launch our
10 qualification program, which typically takes up to
11 four weeks for a domestic mill, and up to eight weeks
12 for an overseas mill.

13 Assessing availability involves reviewing
14 the production schedule submitted with each bid to
15 ascertain if the production timing is achievable and
16 acceptable to meet our project construction target
17 dates. If both quality and availability are
18 acceptable, the best valued pricing is awarded.

19 Our demand for large diameter line pipe over
20 the next three to five years is expected to grow
21 significantly, with an estimate of over 650,000 tons
22 of large diameter line pipe being used just for major
23 pipeline projects. These pipeline projects will be
24 targeting new markets, new sources of supply, and
25 expansions of existing lines.

1 Additionally, as the country grows and the
2 population density increases nearer to our existing
3 pipeline corridors, we will be upgrading pipeline to
4 ensure compliance with the DOT requirements for design
5 in these highly populated areas.

6 We feel it's important for the Commission to
7 understand that a significant risk for major pipeline
8 projects is our ability to ensure line pipe
9 availability that meets aggressive project schedules.
10 Failure to mitigate these risks results in the
11 inability of pipeline companies to develop
12 infrastructure required to deliver new needed
13 capacities to the market place.

14 The industry is seeing lead times for large
15 diameter pipes ballooned to over 18 months from
16 historical levels of six to nine months. The
17 lengthening of lead times in procuring line pipe is
18 necessitating pipeline companies to commit to
19 purchasing materials at points in a project
20 development cycle where project viability risks
21 continue to exist.

22 These risk are both commercial and
23 regulatory, such as construction windows due to
24 environmental constraints or FERC mandated
25 construction deadlines. I will be happy to discuss

1 these risks and others in greater detail during the
2 question and answer period.

3 In attempt to mitigate this risk, pipeline
4 companies have had to look beyond the tradition
5 domestic supply base toward the global market place
6 and the risk inherent in that supply, in an effort to
7 find available line pipe consistent with their project
8 delivery schedules. But even in the global market,
9 supply is very tight.

10 We call to the Commission's attention the
11 low capacity utilization rates of the U.S. industry
12 shown on page I-5 of the Commission's pre-hearing
13 report. The capacity utilization rates do not appear
14 to align with the current line pipe market place. If
15 the mills are under-utilized, as the report appears to
16 be illustrating, one would not expect to see the
17 significant increases in the project purchase lead
18 times.

19 We recommend the Commission expand the
20 analysis to ensure the results are rendering an
21 accurate representation of the current market place.

22 A few questions to explore further are: are
23 the calculations based on a production of the most
24 efficient size pipe the mill can produce? Does the
25 calculation incorporate plant maintenance and

1 changeover from size to size? Is the calculation
2 based on the full size range capacity of the mill, or
3 just large diameter pipe manufacturing?

4 With respect to pipe specifications, our
5 technical requirements for pipe can be met by many
6 mills. However, as our company continues constructing
7 and operating pipelines, using pipe with high yield
8 strength values, we will be dependent on mills that
9 have high yield manufacturing experience that meets
10 our expectations.

11 Currently, several domestic mills have
12 limited or no experience in manufacturing API grade
13 X80 pipe. An example of this limitation was revealed
14 during a recent request for quotation. On one of our
15 large pipeline projects, two of the three domestic
16 mills we bid declined to bid on X80 pipe.

17 In addition to using higher strength of
18 grades of pipe, another recent development in the line
19 pipe market is the increased acceptance of helical or
20 spiral seam welded pipe; sometimes referred to as
21 HSAW.

22 HSAW line pipe is proving to be a more
23 economic alternative for certain pipeline projects.
24 The economics of HSAW pipe are driven by the ability
25 of pipe mills to use a less costly steel coil versus

1 steel plate, while operating their mills at a higher
2 production rate than when producing LSAW pipe. Only
3 one of the four U.S. diameter line pipe producing
4 mills offers HSAW today.

5 We are aware of four new large diameter pipe
6 mills that are planned to be built in the U.S. Of
7 these four, we anticipate three will be built,
8 bringing an estimated additional 500,000 to 800,000
9 tons per year of nominal capacity to the marketplace.

10 Although the companies building these new
11 mills are projecting start dates around the fourth
12 quarter of 2008, we feel it will more likely be the
13 second half of 2009 before the mills will be lined out
14 to consistently produce project qualities of high X-
15 grade line pipe.

16 The Commission's pre-hearing report suggests
17 that Japanese and Mexican producers are likely to
18 respond to changes in demand, with moderate to large
19 changes in the quantity of shipments of large diameter
20 pipe to the U.S. market. It is our assessment,
21 however, most of the new projects in the U.S. are not
22 anticipating the usage of thicker pipe walls, exotic
23 chemistries and grades that appear to be the target of
24 Japanese pipe mills.

25 We also feel most U.S. interstate pipeline

1 would be hesitant to use pipe from Mexico for a large
2 project until they are more comfortable with quality
3 and deliverability.

4 While we are committed to including our
5 domestic pipe suppliers in our future growth, we also
6 have an obligation to our shareholders to evaluate all
7 options available to secure pipe that is of high
8 quality, available when we need it, and realistically
9 priced.

10 Thank you for the opportunity to appear
11 before the Commission to share our testimony. We'd be
12 happy to address your questions or any other testimony
13 that we may be able to provide.

14 MR. KLETT: Good afternoon, Mr. Chairman and
15 members of the Commission, my name is Daniel Klett
16 with comments from Capital Trade Incorporated,
17 testifying on behalf of Japanese Respondents. The
18 focus of my testimony will be on the condition of the
19 U.S. industry and factors affecting its condition.

20 Slide one is a overview of the U.S.
21 producers' shipment and profitability trends during
22 the POI and POR through 2006. Shipments are shown
23 separately for projects an distributors.

24 One caveat is that the absolute shipment
25 volumes between the POI and POR are not comparable

1 because of differences in your industry questionnaire
2 coverage. However, I believe the chart is reasonably
3 reliable regarding overall trends.

4 What is apparent from the graph is that LDLP
5 demand in the project market has a significant effect
6 on U.S. producers' operating profit margins. The last
7 full year of the POI, 2000, was characterized by a
8 sharp decline in project or end user shipments
9 following completion of the Alliance project.

10 The project market increased in 2001/2002,
11 driven by the Gulfstream Pipeline Project, and U.S.
12 producers' profitability accordingly increased. The
13 Enron scandal resulted in a reduction of pipeline
14 construction activity and LDLP demand in 2003 and
15 2004; not only from Enron directly, but from other
16 pipeline companies that experience collateral adverse
17 financial effects.

18 Prices and operating profit margins improved
19 in 2004 and 2005, even with demand apparently
20 continuing to be weak. As noted in the chart, this
21 reflects the supply side phenomenon of the large LDLP
22 supplier, Oregon Steel Mills, shutting down its U.S.
23 LDLP operations, resulting in a 17 percent reduction
24 in its U.S. LDLP capacity.

25 OSM reported in 2004 that it shut down its

1 Napa LDLP operations to enable shipping play to the
2 open market and to its Canadian Camros LDLP mill.
3 U.S. producers' operating profit margins continued to
4 increase in 2006, as LDLP consumption and shipments to
5 the project market increased.

6 The graph also shows that U.S. producers
7 sales to distributors historically have been much
8 smaller and less volatile to the project market. In
9 the original investigation, the Commission's finding
10 of material adverse effects largely related to the
11 continued presence of subject imports in the
12 distributor market in the last year of the POI 2000,
13 even prior to the petition filing in 2001.

14 LDLP imports from Japan into the project
15 market declined as project demand fell, even prior to
16 the petition being filed in 2001. I just note that
17 this morning Petition noted that with revocation of
18 the anti-dumping duty order, imports from Japan would
19 surge.

20 But in your final staff report in the
21 original investigation, I note that imports from Japan
22 declined each year of the POI for the project market;
23 and during 2000, even declined into the distributor
24 market.

25 These historical patterns are highly

1 relevant to the Commission's determination in light of
2 the strong evidence of continued strong project demand
3 for LDLP in United States, based on testimony you
4 heard earlier. That is, the key condition of
5 competition associated with the Commission's
6 affirmative determination in the investigation, a
7 sharp drop in project demand, is not likely to reoccur
8 in the foreseeable future.

9 Another factor relating to the U.S.
10 industry's condition and prospects relate to new
11 spiral-weld capacity in OSM that became operational in
12 early 2007, and the four additional spiral-weld LDLP
13 capacity expansions being announced by U.S. Steel,
14 Berg, Welspun, PSL Limited, which are due to come on
15 line in 2008; or as you've heard, mostly likely in
16 2009. Welspun and PSL are Indian companies which will
17 be new entrants into the U.S. industry.

18 The U.S. industry has argued in their pre-
19 hearing briefs and again this morning that these
20 planned investments make the industry that much more
21 vulnerable to revocation of the anti-dumping duty
22 orders. In evaluating the credibility of this claim,
23 recognize that these capacity expansions expected to
24 cost almost \$300 million in total, were announced in
25 2007, presumably with the internal analyses associated

1 with these investments taking place during 2006 or
2 2007.

3 Please look at slide two. Concurrent with
4 these investment plans and decisions, LDLP non-subject
5 imports increased to over 729,000 short tons in 2006,
6 a level three times that of the highest import levels
7 from Japan during the POI.

8 During the first five months of 2007, non-
9 subject imports reached almost 700,000 short tons,
10 three times the level of the first five months of
11 2006.

12 As reported in your staff report at Table 2-
13 8, purchasers reported U.S. and non-subject imports to
14 be comparable for non-price factors, similar to the
15 degree of comparability between U.S. and Japanese
16 LDLP.

17 If increases of this magnitude of non-
18 subject LDLP imports haven't derailed the announced
19 investments, how can the relatively small volume
20 increase from Japan that may occur with revocation
21 have a material adverse affect on these investments?

22 The significant increase in non-subject
23 import volume in 2006 and 2007 also contradicts the
24 assertions made by Petitioners that U.S. LDLP
25 producers have sufficient capacity to supply the

1 entire market. If this were the case, the increase in
2 non-subject import volume shown in this graph would
3 have constituted a huge supply glut into the U.S.
4 market; and as a matter of economics, prices should
5 have decreased. However, U.S. LDLP prices have
6 increased in both 2006 and 2007.

7 In addition to investments in new
8 facilities, the acquisition of existing LDLP
9 facilities that you've heard about also reflect
10 positive expectations for the LDLP market.

11 The statements made outside this proceeding
12 on slide three and slide four also show what U.S.
13 producers are saying this year with respect to demand
14 prospects; that is, an imbalance between LDLP demand
15 and supply in the U.S. and expectations of strong
16 demand into the future justify the announced capacity
17 increases.

18 Finally, I believe the industry indicia data
19 contained in the pre-hearing staff report may
20 understate the actual health of the U.S. industry for
21 two reasons. Profitability data does not include
22 profits earned on any tollers, LDLP toll production,
23 and U.S. industry questionnaire coverage for the POR
24 is not complete; thank you.

25 MR. YAMAMOTO: Chairman Pearson and

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1 Commissioners, my name is Hirofumi Yamamoto, President
2 of Sumitomo Metal USA in Chicago, Illinois. Sumitomo
3 Metal USA is the U.S. subsidiary of Sumitomo Metal
4 Industries, Ltd.

5 I would like to address first the direction
6 my company, Sumitomo, is going in the market for large
7 diameter line pipe. Then I would like to address the
8 issue of Sumitomo's capacity utilization, which has
9 been accurately reported.

10 Sumitomo has one mill that produces welded
11 large diameter line pipe, the Kashima Steel Works,
12 which makes UOE pipe from steel plates through a
13 longitudinal submerged arc weld, or LSAW procedure.

14 Sumitomo's focus for the Kashima Steel Works
15 is the production of high end and high profit
16 products. These products include heavy-walled pipe,
17 especially for deep sea pipelines, sour service pipe,
18 which are capable of withstanding the extreme
19 corrosiveness of gas and oil containing high sulphur
20 content; low temperature services such as Arctic
21 grade; and severe fracture toughness. Sometimes these
22 characteristics are needed by customers in
23 combination.

24 Why does Sumitomo concentrate on high end
25 products? It is because these products are demanded

1 by customers with with Sumitomo has long-term frame
2 agreements. Our frame agreement customers include
3 some of the largest oil and gas companies in the
4 world. Under these agreements, Sumitomo and its
5 customer work closely to plan for future projects so
6 that Sumitomo knows its customer's future needs.

7 There are three major advantages to the
8 frame agreements for Sumitomo. First, they allow
9 better product planning by giving an idea of estimated
10 pipe demand far in advance. Second, they provide
11 stable production and revenues because Sumitomo is a
12 preferred supplier and some agreements specify
13 quantity deliveries on a monthly basis. Third, they
14 require Sumitomo to keep up quality to ensure it has a
15 cutting-edge pipe production operation.

16 Sumitomo and its frame agreement customers
17 discuss pipe specification details for future pipeline
18 projects far in advance of the date on which the
19 customer places on order. Recently, the frame
20 agreement customers have been coming to Sumitomo much
21 earlier than before to start discussing potential
22 projects. This is the result of the tight supply in
23 the line pipe market and these customers' concern that
24 they will be unable to secure lien pipe if they start
25 discussions too late.

1 These frame agreement relationships make
2 clear that customers require extremely high grades of
3 line pipe for significant future projects. As a
4 result, Sumitomo has made a decision to invest \$83
5 million in upgrading its plate and pipe-making
6 facilities at the Kashima Steel Works. One of the
7 goals of this upgrade will be the commercial
8 production of pipes with extremely high tensile
9 strengths, such as X100 and higher.

10 The demanding grades of pipe require very
11 carefully controlled production throughout the
12 manufacturing process, from the blending of the
13 chemical components of the steel, through the rolling
14 of the plate, and finally to form forming and welding
15 of the pipe.

16 For example, sour service pipe requires
17 specialized chemistry in the steel plate and
18 specialized welding to ensure that the pipe will not
19 corrode and crack in severe environments. Such high
20 grade pipe demand is strong outside the United States,
21 especially in the North Sea, Middle East, and Asia.

22 There are many new spiral-weld mills
23 announced in the United States. Sumitomo's high grade
24 pipes will not compete with spiral-weld pipes for
25 several reasons.

1 First, the helical weld of a spiral pipe is
2 much longer than the longitudinal seam of Sumitomo's
3 pipe, which means increased vulnerability of the pipe
4 and greater chance of failure in harsh environments.
5 Also, spiral is made of coil, and does not have the
6 heavy wall needed for many high grade applications,
7 especially deep sea service, where collapse resistance
8 is important.

9 Spiral-weld pipes have an important role to
10 play in the U.S. market, but many producers plan to
11 supply more of this product when the new U.S. spiral-
12 weld mills come on line, and Sumitomo is not
13 interested in competing with them.

14 We primarily sell our very high grade line
15 pipe for a premium price to dedicated customers with
16 which we have frame agreement commitments or other
17 long-term relationships. We have no incentive to
18 violate commitments to these customers to sell pipe in
19 the United States.

20 Finally, a word about production capacity.
21 I understand the Petitioners' lawyers have attacked
22 Japanese mills' capacity numbers. The only time from
23 2001 to 2006 that the UOE mill at Sumitomo Kashima
24 Steel Works has not been running around the clock is
25 for a small portion of 2001. Since then, all

1 available time for operating the mill has been
2 utilized. We do not have the ability to increase
3 production over the amounts reported in our
4 questionnaire response.

5 As anyone in the industry should know, the
6 daily output of pipe tonnage from a large OD pipe mill
7 changes drastically according to the order being
8 produced. This is because you may be producing one
9 very large pipe one day, and then a smaller pipe the
10 next. Obviously, the larger pipe will weigh more,
11 even though the time to produce both is the same.

12 In conclusion, Sumitomo is making
13 significant upgrades to its facility, and has plans to
14 invest in the top end of the large OD pipeline market,
15 producing high-grade and heavy walled pipe. We cannot
16 at this time squeeze in any more pipe production into
17 an already full production schedule, and we do not
18 have the intention or ability to export to the United
19 States in significant volumes.

20 I appreciate this opportunity to appear
21 before the Commission, and I am happy to answer any
22 questions you may have.

23 MR. MIKI: Good afternoon, Chairman Pearson,
24 Vice Chairman Aranoff, and members of the Commission.
25 My name is Heiki Miki, and my title is Section Manager

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1 of the Line Pipe Section, Pipe and Tube Export
2 Department of JFE Steel Corporation.

3 First, I want to echo the comments of Mr.
4 Yamamoto concerning frame agreements. JFE Steel also
5 has frame agreement customers, and is involved in
6 planning long-term for major projects in the future.
7 We also have long-term relationships with other
8 customers to which JFE Steel has supplied line pipe
9 for a long time.

10 Considering the strong requests from all of
11 the buyers within our customer base, we expect to be
12 running our mills at full capacity in the future; and
13 we, in fact, are declining many inquiries from
14 potential customers. We have already provide some
15 information on frame agreements for the record, and
16 intend to provide further information on our
17 traditional customer base in the post-hearing brief.

18 I would like to focus the balance of my time
19 on production capacity utilization and JFE Steel's
20 sale policy for line pipe. JFE Steel has accurately
21 reported its capacity and its capacity utilization, as
22 we have been operating our large OD line pipe mills at
23 maximum possible output since 2001. The yearly
24 variance of production and capacity across the POR
25 results from what Mr. Yamamoto mentioned; the mix of

1 what you produce.

2 For example, JFE Steel reported its highest
3 production volume in 2003 and 2004 because it was
4 producing very large OD and heavy wall pipe for
5 projects such as in China. Since 2005, the product
6 mix has happened to change due to product commitments
7 that are consistent with JFE Steel's sales policy to
8 focus on high-end line pipe products.

9 I wish that I could use JFE Steel's POR data
10 to show how even slight variations in wall thickness
11 in outside diameter can drastically vary production
12 output of a mill when measured on a collage basis.
13 But, JFE Steel's data are unfortunately confidential
14 and we will provide that information in our post-
15 hearing brief.

16 However, there is publicly available
17 information from one of the Petitioners appearing
18 before you today, specifically Berg Steel Pipe, that I
19 will use to demonstrate this point in the following
20 presentation. This presentation is called capacity
21 fluctuation 101.

22 First, I would like to demonstrate how small
23 increases in wall thickness can significantly increase
24 pipe weight even when the pipe diameter remains the
25 same. Our source of data is a publicly available

1 presentation called the Gulfstream Project, meeting
2 the pipe supply challenge, which was put together by
3 the officials of Berg and its parent company,
4 Europipe. This presentation concerns the logistics of
5 producing large OD pipe for the Gulfstream Project.

6 Gulfstream was a significant gas pipeline
7 laid across the Gulf of Mexico from Alabama to
8 Florida. Berg bid on the project and then outsourced
9 a significant portion of the production to two
10 Europipe mills in France and Germany. Page 5 of this
11 presentation contains this chart. It breaks down the
12 pipe supplied for Gulfstream by grade, OD and wall
13 thickness combination with total footage and tonnages
14 supplied for each combination.

15 We will first focus on the data in this part
16 of the chart, which shows the pipe specs that I
17 believe just Berg provided for an on-land segment of
18 the Gulfstream project. We have recreated this
19 portion of the chart for clarify. Let's first look at
20 the pipe spec with the lightest wall. This pipe is
21 grade X70, 30-inch OD and .441 inch wall thickness.
22 You can see here that the total footage of the spec
23 supplied was 428,641 and the total volume was 29,865
24 tons. Volumes of total feet by the total tonnage
25 gives you a perfect weight of .0697 tons per foot.

1 Now, let's compare this stuff back with the
2 same OD, but slightly heavier wall, .529 inch. On a
3 perfect basis, this spec weighs .0833 tons per foot.
4 As you can see, the spec is .088 inch or less than
5 one-tenths of an inch thicker, yet is 19.6 percent
6 heavier.

7 Now, let's compare this pipe to the pipe
8 with the heaviest wall on this chart, .750 inch. This
9 pipe weighs .115 tons per foot, which is .309 inch
10 thicker or almost 66 percent heavier than the pipe at
11 the bottom of the chart.

12 Now, let's quickly look at one example of an
13 OD change. Again, here's a Berg Europipe presentation
14 and we are going to focus on this part of the chart
15 now, which for clarity has been recreated here. Let's
16 compare the spec with 30-inch OD by .635 inch wall,
17 which weighs .0997 tons per foot. Two lines above it,
18 it is another pipe with the same wall thickness, but
19 36 inch OD. This spec weighs .12 tons per foot with a
20 six-inch OD change. The pipe now weighs over 20
21 percent more. Here briefly is a summary showing the
22 weight changes from these spec changes.

23 Now, some of the increase in volume output
24 would be effected by the mill running slower to
25 produce pipe that has heavier walls or large ODs.

1 While the offset is not much, so most of the tonnage
2 gain is realized by switching to producing larger
3 pipes. This, at least, is the case for three Japanese
4 mills.

5 Even what I have shown you, it is completely
6 inaccurate and even misleading for a mill to pick a
7 fixed pipe specification by OD and wall thickness and
8 then claim it has capacity to produce that amount.
9 You can only produce the orders that are given to you
10 by customers and if the market demands smaller pipes
11 or difficult grades that slow down the speed of the
12 mill, then that is what you produce. Claiming
13 otherwise is like boasting that you can throw a dart
14 backwards while blindfolded and hit the bull's eye
15 every time.

16 Finally, a word about our sales policy. JFE
17 Steel sales policy for line pipe is not to maximize
18 tonnage. Instead our focus is on high-end pipe rather
19 than conventional pipe and also to maintain
20 relationships with our frame agreement customers and
21 other long-term customer relationships.

22 In some cases, JFE Steel has given long-term
23 customers lower volume and lower profit orders a
24 priority in its production schedule over high-volume
25 and profit orders precisely because of the customer

1 relationship. There also is no need to maximize the
2 tonnage volume of pipe shipments because the mills
3 producing feedstock, especially plate, are at full
4 capacity anyway.

5 I am also very strong under pressure to move
6 up the grade scale from the JFE Steel plate section,
7 which have their own customers and are also under
8 similar pressure JFE Steel's management to move toward
9 high-end plate product. As a section manager, I need
10 to explain to my bosses every day how a particular
11 project for JFE Steel fits into this overall policy.

12 In conclusion, JFE Steel's capacity and
13 production figures reported in this proceeding have
14 been accurate, and the capacity numbers of the other
15 mills have been accurate also. All three mills have
16 been fully booked and do not have excess capacity to
17 shift significant volumes to the United States was the
18 order revoked. I would be happy to answer additional
19 questions the Commission has. Thank you.

20 MR. BENITEZ: Good afternoon. My name is
21 Alfonso Benitez and I am the administrative director
22 of Tubacero, S.A. de C.V. I have been with the
23 company for 42 years. I appreciate this opportunity
24 to share a longer perspective with you.

25 Let me begin by telling you something about

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1 our company. Tubacero is the oldest Mexican producer
2 of welded large diameter line pipe or LDLP. We were
3 founded in 1943, only a few years after Pemex, which,
4 as you know, is a national Mexican oil company and the
5 principal customer of LDLP in Mexico. We are the only
6 Mexican company with pipe mills that are specifically
7 devoted to the large diameter size range. As you
8 know, we have been joined in this case with two other
9 Mexican producers of LDLP, Tuberia Laguna and Tuberias
10 Procarisa. The mills produce from about six to 24
11 inches using the ERW process.

12 At Tubacero, we can produce LDLP with a SAW
13 process, using either steel coil or steel plate as a
14 primary input. We take great pride in our technical
15 capabilities. We are one of the leading producers in
16 the world of LDLP suitable for use in sour gas fields,
17 such as the Cantarel field in Campeche Bay, which is
18 Mexico's largest producing oil field. We devoted a
19 great deal of effort to the development of this
20 product over the years and we are proud to be a leader
21 in that segment of the market.

22 Of course, the market for LDLP has evolved
23 over the years. From the time I joined Tubacero in
24 1965 until the early 1980s, the Mexican industry
25 producing LDLP experienced a long upward trend. As

1 oil prices rose sharply in the 1970s, investment in
2 oil production and related industries spiked. We
3 added our second production mill in 1974. The other
4 Mexican producers, Laguna and Procarsa, installed
5 their production capacity in 1970s and early 1980s.

6 Then in the mid-1980s, the situation
7 collapsed. Oil and gas prices fell sharply. The
8 Mexican economy experienced hyper inflation and Pemex
9 more or less stopped investing in new exploration and
10 new pipelines. And that situation continued for
11 around 20 years. None of us invested in new capacity
12 for large welded pipe. In the last few years,
13 however, the situation has turned around for us. In
14 part, this is due to the recent increases in oil and
15 gas prices. Pemex has finally started to make the new
16 investments needed to expand production. It has
17 announced new offshore drilling projects and it has
18 also embarked on a program to replace and refurbish
19 existing pipelines. As a result, the prospects for
20 the line pipe market in Mexico are better than they
21 have been for the last 25 years.

22 There has been a major change in the last
23 few years that has worked to our benefit. In the late
24 1990s, there was another Mexican producer of LDLP,
25 Productora Mexicana de Tuberia, PMT, which competed

1 directly with us in the larger sizes of welded line
2 pipe. Although we were a minority owner of PMT, its
3 commercial policy was set by its majority owner, a
4 company that was at that time named Ispat but is now
5 known as Mittal Steel.

6 PMT's commercial policy was very aggressive,
7 it routinely undercut us on prices for sales in
8 Mexico. And I understand that the U.S. producers
9 claimed that PMT undercut them for an Enron pipeline
10 in Florida. I was told at that time that PMT's
11 success in capturing that project led the U.S.
12 producers to file their dumping case against Mexico.
13 In the end, however, PMT's aggressive pricing strategy
14 failed. The company was dissolved and its equipment
15 was disassembled and sold to Saudi Arabia.

16 With this aggressive competitor permanently
17 out of the picture, we have found many more
18 opportunities to make a reasonable profit on our sales
19 in Mexico. In this context, I would like to emphasize
20 the commercial realities for a company in the position
21 of Tubacero or Luguna or Procarsa. None of us is
22 owned by Ispat or Mittal Steel. None of us has deep
23 pocket that can finance losses for an extended period
24 of time while we cut prices to gain market share.
25 Instead, we have to earn money on just about every

1 single sale in order to stay in business. Because our
2 equipment is already depreciated, our fixed costs are
3 fairly low and we can sustain long periods of low
4 production. Given this cost structure, we lose money
5 only if we buy steel coils and plates and use them to
6 produce pipe for sale and unprofitable levels. In
7 simple terms, we cannot make up losses on individual
8 sales by increasing our sales volumes, because more
9 sales at low prices simply means more of a loss for
10 us.

11 When you look at our questionnaire response,
12 you may see what appears to be some unused capacity.
13 As you have heard, these figures may be distorted by
14 product mix issues. In any event, our capacity
15 certainly has not increased since the mid-1980s. And
16 because we are focused on higher value sales in
17 Mexico, our exports have always been very small. The
18 antidumping order did not change that and there is no
19 reason to believe that revocation of the order will
20 change that either. Thank you.

21 MR. HUEY: Mr. Commissioner, we are ready
22 for questions from the Commission.

23 CHAIRMAN PEARSON: Okay. Let me begin by
24 thanking the members of this panel, particularly those
25 of you, who have come from other countries, to help us

1 understand better this situation of the businesses in
2 your part of the world. We will start this afternoon
3 questioning with Commissioner Pinkert.

4 COMMISSIONER PINKERT: Thank you, Mr.
5 Chairman, and I would like to thank this panel and
6 welcome you. We appreciate your testimony today and
7 your willingness to answer questions.

8 I would like to begin with Mr. Klett and ask
9 him whether the projections of potential demand in
10 this industry are reliable and, if so, what are the
11 limitations on the reliability of those projections?

12 MR. KLETT: Mr. Pinkert, there are a number
13 of projections with respect to demand going forward.
14 I think you have EIA projecting project demand in the
15 United States. You have MBR projecting U.S. and
16 worldwide demand. You have other industry
17 publications projecting demand. I think with respect
18 to the specific demand projections, they may not be
19 right on the market 100 percent, but I think you have
20 to look at the underlying factors for why all these
21 analysts are projecting strong demand going forward,
22 in terms of the fundamentals with respect to natural
23 gas consumption, the things testified by Mr. Santa
24 with respect to the U.S. market and changes in supply.
25 So, even if the specific numbers, in terms of what

1 actually comes to pass with respect to demand, may
2 differ from the projections, I think the consensus is,
3 is that demand in the U.S. and worldwide will go up,
4 because the underlying fundamentals supporting line
5 pipe demand positive projections are there.

6 MR. PIERCE: Commissioner Pinkert, if I may?
7 You may find -- this is Ken Pierce from Vinson &
8 Elkins, if I may. You may find it helpful to hear
9 from Mr. Santa. One of the issues the FERC
10 application list, how reliable is that as an indicator
11 of demand, how solid are the projects that are on that
12 application list. As a former FERC commissioner, I
13 think Mr. Santa can shed considerable light on those
14 demand projections that are based on the FERC
15 application list.

16 COMMISSIONER PINKERT: Well, then, Mr.
17 Santa, in your view, what are the key market
18 indicators that are useful in projecting demand in
19 this industry?

20 MR. SANTA: Well, as was indicated, the EIA
21 numbers from the Energy Information Administration of
22 the U.S. Department of Energy are supportive of this,
23 both in terms of what they project for national gas
24 demand and what they project, in terms of the level of
25 project activity. Underlying that, I think, are a

1 couple of important things. First of all, on the
2 issue of the demand for new transmission pipeline, it
3 is not derivative solely of growth in demand for
4 national gas, but it's very much driven by the fact
5 that with a tight supply-demand balance in the market
6 for the gas commodity and the fact that many of the
7 historic producing areas are mature and have plateaued
8 and begun to decline, there is a shift in the sources
9 of gas, more natural gas being produced in the Rocky
10 Mountain region, the mid-Continent region, any
11 anticipation of a lot more imports of liquefied
12 natural gas. That creates demand for pipeline
13 infrastructure to get those new sources from the point
14 of production to the market even if the market is
15 growing at a relatively modest pace.

16 With respect to the -- and as a matter of
17 fact, in one of the pieces that we have as an appendix
18 to our testimony is a report by an analyst with Credit
19 Suisse, who estimates that 70 percent of the proposed
20 pipelines projects are driven by non-conventional
21 sources of gas, that is the Rockies and the mid-
22 Continent or by LNG.

23 With respect to the FERC applications, this
24 morning, the witnesses for Petitioners cast some doubt
25 on whether that can be looked at as a good surrogate

1 for the number of projects that were actually out
2 there and would reach the point that actually be
3 constructive. I think it's important to note that
4 before one gets to the point that an application is
5 filed with the FERC, a project has gotten over several
6 significant thresholds. When a project is announced,
7 it is, to some degree, testing the market. A pipeline
8 company would have done some market research, may have
9 spoken to some potential customers, decided to
10 announce it. After that, a pipeline company typically
11 holds what's called an open season. In that open
12 season, it solicits commitments from potential
13 shippers, are they interested in signing up for firm,
14 long-term capacity on that pipeline. And only after
15 the company has gotten to a certain threshold of being
16 comfortable that there really is demand for this
17 pipeline out there will it proceed to the stage of
18 filing a certificate application with FERC.

19 Filing its certificate application with FERC
20 is not a trivial undertaking. It involves a lot of
21 very detailed work, in terms of environmental reviews,
22 in terms of cultural resources reviews, in terms of
23 the routing of the pipeline, in terms of dealing with
24 the communities and local land owners, who will be
25 along that route. And it's not a trivial undertaking,

1 in terms of the financial resources that must be
2 committed to it. It involves millions of dollars,
3 sometimes tens of millions of dollars committed by the
4 applicant to pursue that application. So, it's not
5 something that is pursued merely to preserve a space
6 in line or something like that.

7 In saying that, yes, there are times when
8 projects that have gone through the application stage
9 will drop by the wayside. But by the same token, to
10 get to that point, you would have gotten over several
11 significant thresholds that I think mean that there is
12 a serious commitment on the part of the pipeline
13 company to pursuing that project.

14 COMMISSIONER PINKERT: Mr. Santa, and also
15 Mr. Klett, have you done any testing looking backwards
16 to see whether the market indicators that you're using
17 to project demand are, in fact, accurate, with respect
18 to -- tested the model to see whether or not the
19 historical data is consistent with the projections
20 that you're offering?

21 MR. KLETT: I haven't done so, Mr. Pinkert.

22 COMMISSIONER PINKERT: Mr. Santa?

23 MR. SANTA: We have not done anything in
24 terms of taking a look at, for example, number of
25 applications filed versus those that would result in a

1 project going to completion, although I have certainly
2 a strong belief that a significant percentage of those
3 that are actually filed do result in a project that is
4 constructed.

5 In terms of the demand for natural gas,
6 while there is some variation year to year, because a
7 lot of the natural gas market is a space-heating
8 market, therefore, if you ended up with a year that
9 was abnormally mild, for example, last year, you might
10 see a dip in demand. But in terms of the demand
11 driver there with electric generation, both in terms
12 of what we have seen to date and what I think we can
13 reasonably project going forward, which is consistent
14 with the EIA projections, the EIA projections are that
15 natural gas demand in the United States will grow from
16 22 TCF approximately today, to 26 TCF by 2020. The
17 EIA projects that the bulk of that demand will be
18 attributed to electric generation demand and I think
19 that's consistent with what we are seeing in the
20 marketplace today.

21 COMMISSIONER PINKERT: Mr. Klett?

22 MR. KLETT: No, I have nothing to add.

23 COMMISSIONER PINKERT: Thank you. I now
24 would like to turn to Mr. Benitez, who I think was the
25 final witness on the panel, and I am wondering whether

1 you could comment on what we heard this morning about
2 the circumstances of Pemex's business. In other
3 words, I understand that you are testifying that going
4 forward, they're looking to enhance their business.
5 But, how are they doing right now and what is the
6 level of profitability and what is the level of
7 activity in that business?

8 MR. BENITEZ: Well, what we have seen is
9 some newer explorations in the Pemex fields, trying to
10 compensate the decline in the Cantarel field. That
11 actually is the leader of the Pemex oil output
12 production. And I don't have the figures about the
13 profitability.

14 MR. WINTON: Commissioner Pinkert, perhaps I
15 can ask Jesus Gutierrez, who is from another Mexican
16 producer, to add his comments on that issue, as well.

17 MR. GUTIERREZ: Good afternoon. Just to add
18 a little bit on Mr. Benitez's answer, is that Pemex
19 has been announcing new investments that will be made
20 in certain for new fields since the decline of the
21 major oil resource in the country and, also,
22 replacement of oil line pipes. This has been
23 something that has been taking place since this new
24 President administration and that's basically for all
25 public knowledge. So, I hope that might answer a

1 little bit your question.

2 COMMISSIONER PINKERT: Thank you.

3 MR. WINTON: And, just to add, to be like
4 Mr. Schagrin and add my own factual testimony, both
5 Mr. Benitez and Mr. Gutierrez have told me that for
6 both of their companies, their sales to Pemex are up
7 significantly this year compared to previous years.

8 COMMISSIONER PINKERT: Thank you. I've run
9 out of time on this round, but will come back to that.
10 Thank you.

11 CHAIRMAN PEARSON: Let me begin with a
12 clarification that in order to accommodate the
13 conclusion of the testimony of this panel, I yielded
14 four minutes of my time to the Respondents. I very
15 much wanted to hear Mr. Benitez's comments. So, I
16 will now have a six-minute round of questioning.

17 MR. WINTON: We very much appreciated that,
18 by the way.

19 CHAIRMAN PEARSON: Not a problem. When you
20 are -- primarily for the INGAA panelist, when you are
21 contemplating a large pipeline project, do you prefer
22 that the pipe be supplied by a single mill or by
23 multiple mills?

24 MR. MORSE: It depends on how large the
25 project is. If it's a very large project, we would

1 probably want to go to multiple mills. A lot would
2 depend on exactly when and the duration of anticipated
3 construction, so that you don't have to -- if you
4 could avoid having a single mill producing pipe as
5 much as a year in advance and having to store it and
6 instead could have multiple mills producing it only a
7 couple of months in advance of need, that would make
8 sense. On smaller projects, you very often will go to
9 just a single mill.

10 CHAIRMAN PEARSON: Okay. And can you give
11 any sense of how large a project has to be before it
12 might make sense to involve more than one supplier?

13 MR. MORSE: Roughly, I would say something
14 over 150 to 200 miles of pipe would make you start
15 thinking seriously about multiple suppliers.

16 CHAIRMAN PEARSON: Okay.

17 MR. DAVID FISHER: If I could add to that?
18 I'm David Fisher with El Paso. He is correct in what
19 he's saying, that is a big determiner. But sometimes
20 depending on the market and the consistency of coil or
21 plate supply, we may decide to split the order, if we
22 have the concern that the supplier of plate may not be
23 consistent to one pipe mill. Also, if one of -- if we
24 are using a pipe mill that we're not familiar with, a
25 newly-approved pipe mill, we might want to split the

1 order just to hedge our risk, in case their production
2 capacities aren't up to what we had expected. But,
3 generally, it is a function of how much pipe can be
4 delivered in a short span of time. Sometimes, it
5 takes two different producing at one time to get it
6 all there in the time we need it.

7 CHAIRMAN PEARSON: Okay. But, assuming the
8 pipe is correctly produced, they're completely
9 interchangeable coming from one mill or another; is
10 that correct?

11 MR. DAVID FISHER: That's correct.

12 CHAIRMAN PEARSON: Okay. Does it ever
13 happen that a pipeline is built with some combination
14 of a higher strength thinner wall pipe and a lower
15 strength thicker wall pipe just to get the mileage
16 that you need?

17 MR. MORSE: Yes.

18 CHAIRMAN PEARSON: And would it be just
19 because there's no other way to get the mileage?

20 MR. MORSE: There may be other factors
21 involved, as well, but often that would be just the
22 case. If you can't get all of the thin wall higher-
23 strength steel that you want, but you have access to a
24 slightly thicker wall, lower grade, say X65 or X70
25 steel, you will put the two of them together. And you

1 will have -- pipelines are typically built in what we
2 call spreads and you'll have one -- if you have
3 multiple spreads, you'll have one type of pipe
4 delivered to one spread and the other type of pipe
5 delivered to the other spread.

6 CHAIRMAN PEARSON: And does it have to do
7 with the type of terrain one is covering? The soil
8 type? The degree of earthquake risk?

9 MR. MORSE: It typically has much more to do
10 with -- you want the thinner wall pipe, because with
11 that thinner wall pipe, you need less tons overall to
12 have the same capability. And with less tons, you
13 tend to have less overall costs, because your
14 substrate expense is lower. So, it is very much a
15 price-driven thing, as long as the higher grade steel
16 pipe with the thinner wall is available.

17 CHAIRMAN PEARSON: Okay.

18 MR. DAVID FISHER: If I could add, the only
19 other factor on that is depending on population
20 density, the classification areas that we're in, that
21 are determined by DOT, we're required to put in either
22 thicker wall or higher grade pipe in those -- the more
23 concentrated the population is to our pipeline. So,
24 that's also some cases where we would have a mixture
25 of wall thicknesses and grades and that would be to

1 meet the strength requirements for the population
2 densities we're running our pipeline through.

3 CHAIRMAN PEARSON: I assume that in general,
4 there are cost advantages of using the thinner wall
5 pipe, if it's meeting the strength requirements. Have
6 there been technological advances in recent years that
7 have allowed this shift toward thinner wall pipe or
8 has this been a technology that's been around for a
9 long while and something else about the economics are
10 changing now?

11 MR. MORSE: Well, X80 pipe has been
12 available for at least 10 years in regular commercial
13 use, but it is thinner wall and it is -- what we have
14 found in TransCanada is there has been less interest
15 among domestic mills to produce it and we've had to go
16 elsewhere to get it. Now, it appears that there are
17 more of the producers, who are putting in the spiral
18 mills, which can handle thinner wall. They appear to
19 be, from the statements this morning, interested in
20 serving that market.

21 CHAIRMAN PEARSON: Okay. Mr. Fisher?

22 MR. DAVID FISHER: I think especially in
23 coil, the newer mills that use controlled rolling have
24 a lot more computer control of the steels, allow them
25 to make the pipe thinner and get more consistent

1 properties, and that's been technology that's been
2 increasing since -- I remember when I got in the
3 business in the late 1970s, we were experimenting with
4 X70. So, it's just been a natural progression of the
5 industry to, as we get comfortable with higher grade
6 and will start thinking about moving on to the next
7 higher grade. And right now, we're at that category
8 where we're absolutely completely comfortable with X70
9 and now we're looking at more and more being able to
10 put in projects with X80.

11 CHAIRMAN PEARSON: Okay. So, the industry
12 is just evolving as technology and economics and
13 availability of supply of higher grades changes?

14 MR. DAVID FISHER: That's correct.

15 CHAIRMAN PEARSON: Thank you, very much.
16 Madam Vice Chairman?

17 VICE CHAIRMAN ARANOFF: Good afternoon to
18 this panel and thank you all for traveling to be with
19 us today. Let me continue with Mr. Morse and Mr.
20 Gillespie and your panel. You were talking about the
21 need to contract for volumes of pipe prior to having
22 final regulatory approval. And I wanted to follow-up
23 on that a little bit, because it seems as though the
24 contracting process is sort of a multiple step process
25 of you and the producer both getting closer and closer

1 to knowing what you're going to need and what they're
2 able to provide. Can you tell me, at this point, how
3 far out from delivery you're actually signing a
4 contract, making a commitment? And at that point, are
5 the volume and price fixed?

6 MR. GILLESPIE: I'll try that first. The
7 scenarios today are -- and it's been evolving to this
8 point over the past year or so -- is that we'll be
9 placing an order for delivery of pipe in, say,
10 November-April time frame of 2008, 2009. We will need
11 to be in a position to commit to that order in the
12 current period, in the next 30 to 60 days and it would
13 be at a committed price, somewhat vulnerable to the
14 price of steel, as the producer begins to lock into
15 their scenario for their materials. But, we're in
16 situations right now today on strategic projects that
17 we're having to place a committed order for pipe at
18 16, 18 months before delivery.

19 VICE CHAIRMAN ARANOFF: Okay. I just want
20 to explore a little bit more of what a committed order
21 means. So, you said the volume is set, can't be
22 changed. Is that a volume within a range or a set
23 volume?

24 MR. GILLESPIE: It's a volume that is set, a
25 total capacity that we're going to commit to at a

1 price that we've negotiated.

2 VICE CHAIRMAN ARANOFF: And the price
3 usually contains some kind of possibility of an
4 escalation clause --

5 MR. GILLESPIE: Possibly, yes.

6 VICE CHAIRMAN ARANOFF: -- of the price of
7 steel?

8 MR. GILLESPIE: Yes.

9 VICE CHAIRMAN ARANOFF: Is that a normal
10 practice?

11 MR. DAVID FISHER: It hasn't been as much in
12 the past, because the steel market hasn't been as
13 volatile as it has in the last three to five years.
14 But, it is becoming more common to have some -- to
15 have to put into account some kind of escalation in
16 the price of steel, so that it protects the pipe mill
17 from circumstances beyond their control on supply.

18 VICE CHAIRMAN ARANOFF: Does it give you
19 benefit if the price of steel goes down?

20 MR. DAVID FISHER: I haven't seen that yet.

21 VICE CHAIRMAN ARANOFF: Okay. I know this
22 is probably confidential from company to company, but
23 if there is information that you can provide to us
24 post-hearing that would tell us out of all the
25 contracts that you're selling, approximately what part

1 of the volume is covered by these kind of adjustable
2 pricing mechanisms, that would be helpful.

3 So, my next question, you've signed a
4 contract. You've agreed on a volume and a price with
5 maybe an escalation clause. What happens if you don't
6 get regulatory approval? Are you stuck with all of
7 that pipe or is there some amount that you can pay to
8 get out of the contract? How does that work?

9 MR. DAVID FISHER: Yes, we do have that
10 concern that we're stuck with pipe. Quite often in
11 the orders that we place, there are cancellation
12 clauses that are keyed to certain stages of production
13 of the pipe. Like from time of order placement to
14 time of steel mill, if we were to cancel, we would
15 have to pay x percentage of the final price of pipe.
16 From steel making to coil making and on like that, up
17 to where if we cancel after pipe production has
18 started, then we are 100 percent at risk. So, those
19 clauses have always been there, but they have become
20 more realistic and more of a threat to our project in
21 the last few years.

22 VICE CHAIRMAN ARANOFF: Okay. And aside
23 from cancellation, of course, there's just always the
24 risk of delay, that you may get your regulatory
25 approval, but there may be some reason why the pipe

1 project doesn't go off on time.

2 MR. DAVID FISHER: That has happened in the
3 past. And, in fact, part of FERC's approval even
4 covers storage sites, project-related storage sites
5 for the pipe. So, we've gotten into situations where
6 we've had to go ahead and commit to have the pipe
7 made. The pipe gets made and we still don't have our
8 FERC certificate. FERC won't let us go ahead and haul
9 it out to the project site. We're basically now --
10 this pipe is in limbo. We either have to -- usually
11 what we do is, number one, if it's in time, to ask the
12 pipe mill to stop or slow down, we'll ask them to do
13 that. If not, then we ask them to store the pipe.
14 And depending on the mill, they -- like Berg is one
15 that historically has a very small footprint for their
16 property in Panama City, so we often -- we're very
17 much liable to have to pay storage charges on that
18 pipe, holding it until we can get our FERC approval to
19 take it to the project site.

20 VICE CHAIRMAN ARANOFF: Okay. I didn't get
21 around this morning to asking domestic producers these
22 same questions about contracting practices and so I
23 would welcome any comments that you have on these same
24 questions in post-hearing.

25 Does anyone else want to have a comment on

1 contracting practices?

2 MS. PAUL: Perhaps, I can just add --
3 Catherine Paul with TransCanada. We, also, are in the
4 market right now for a significant project that we
5 have not received all the regulatory sanctions and
6 approvals for and have had been making commitments to
7 pipe, as best as we can, at fixed prices in 2008,
8 2009, and 2010. We have also found it very difficult
9 to complete all the purchases for the requirements we
10 had in 2008 and have actually had to restructure our
11 construction program to meet the pipe that is
12 available to us, both in the U.S. market and actually
13 internationally, as well. And so, that certainly adds
14 significant complications to this project and risk to
15 it, as well.

16 CHAIRMAN PEARSON: Okay, thank you. Let me
17 turn now and ask a question of Mr. Yamamoto and Mr.
18 Miki. You've both indicated that your companies are
19 investing in, trying to focus on high-end products
20 that are either high grade, sour service, Arctic
21 grade, that kind of product. And in taking a look at
22 Table 4-16 in the staff report, which is a
23 confidential table, but that shows Japanese producers
24 shipments by grade, size, and wall thickness, and, in
25 general, I'm not sure that what I see in that chart is

1 consistent with the idea that the production of
2 Japanese producers is so narrowly focused on these
3 specialized areas that it would be of no concern,
4 owing to very little overlap with what the domestic
5 industry produces. Let me just throw it out to you
6 whether you have -- if you have any response to that,
7 whether you can indicate to me, perhaps
8 confidentially, what percentage of each company's
9 subject production falls into these really specialized
10 categories that are largely not made in the U.S.

11 MR. YAMAMOTO: I will submit it later in
12 post-hearing.

13 CHAIRMAN PEARSON: Okay.

14 MR. MIKI: Heiki Miki, JFE Steel. If you
15 just take a look at the strength level of steel, you
16 have X65, X70, X80, but even X65 pipe strengths of the
17 pipe could be very difficult pipe to make, if you have
18 sour grade or some other specific specification from
19 the customers. So, I want to really make it clear
20 that what kind of high-end products we are making and
21 submit that information as part of the post-hearing
22 brief.

23 CHAIRMAN PEARSON: Okay. That would be
24 really helpful. And to the extent that you can just
25 show us what percentage of your overall production

1 that represents, because the table that we have now,
2 while as you say it does break out by grades and by
3 wall thicknesses, it doesn't really get to the point
4 that you're making to me and the more specific you can
5 be, the more helpful it would be.

6 MR. KLETT: Commissioner Aranoff, this is
7 Dan Klett. I would just like to go back to cut-to-
8 length, where Mr. Delie was asked a question about X70
9 and he basically said, we talked last time about X70.
10 It's not a commodity. All X70s aren't the same.
11 Depending on where the final product is being used,
12 depending on who the customer is, there are different
13 chemistries required by different customers for the
14 specific uses of X70. X70 just means the yield
15 strength and then he goes on. So, in other words,
16 X70, there can be high quality X70 and, in a sense,
17 not so high quality X70, depending on things other
18 than the yield strength.

19 CHAIRMAN PEARSON: Yes, I understand that.
20 And right now, I've got a record in front of me that
21 just says, hey, everybody can make X70. So, I need to
22 have more clarification before I can decide whether
23 there is direct competition there or not. Okay.
24 Thanks, Mr. Chairman.

25 CHAIRMAN PEARSON: Commissioner Okun, now

1 it's your turn.

2 COMMISSIONER OKUN: Thank you, Mr. Chairman,
3 and I join my colleagues in welcoming this panel this
4 afternoon. I very much appreciate all of you being
5 here, particularly those who have traveled, and also
6 for the amount of information that has already been
7 placed on the record. I found it very helpful.

8 If I could turn to the Japanese producers,
9 you provided a lot of information in the brief about
10 your frame agreement customers and I know that the
11 specific information is confidential. But, I wanted
12 to ask some general questions to see if I -- to make
13 sure I understand what a frame agreement customer is
14 and how we should evaluate that in determining how
15 much Japanese product may be available to come to the
16 United States. So, if you could, and if it's
17 different for the different companies, I would
18 appreciate hearing that, too, which is, when you have
19 a frame agreement customer that you've referenced, are
20 you making a commitment to them at a particular volume
21 and a particular price; and if so, how long into the
22 future does that go? And if I see in the briefs
23 already something saying you have a commitment, let's
24 say it's through mid-2007, when that comes up, is it
25 just over, because you have to move to the next bid?

1 MR. MIKI: Commissioner Okun, Heiki Miki
2 with JFE Steel. Actually, as I discussed in my speech
3 today, there are several frame agreements with our
4 customers. And to be honest with you, each frame
5 agreement is different from customer to customer.
6 Some frame agreements, we commit something different
7 frame agreement -- we commit something different. And
8 in terms of the volume, terms of length of duration of
9 the contract is also different. So, I would like to
10 show you some examples of what kind of frame
11 agreements we have in our post-hearing brief, since
12 this is very confidential information for JFE.

13 COMMISSIONER OKUN: Okay.

14 MR. YAMAMOTO: Hirofumi Yamamoto. Another
15 thing to add, that after getting customer's approval,
16 I will submit the data and give them to you.

17 COMMISSIONER OKUN: Okay. And then -- Mr.
18 Huey, maybe this would go to you or Mr. Klett. And,
19 again, I think there's information -- you've provided
20 a lot of information about the tonnage involved in the
21 order books. But, I'm trying to understand, and it
22 looks like it might be different between customers,
23 how much of it is a committed -- something that we
24 would consider a long-term contract, you know, can it
25 be canceled? It is -- can the volume change? Can the

1 prices change? And I understand from these gentlemen
2 that it's going to be different. It's confidential.
3 But, if you could take what they provide and then
4 perhaps put that in a format that would be easy to try
5 to understand how much is in one category and how much
6 is in the other category, I think that would be very
7 helpful.

8 MR. HUEY: Commissioner Okun, we will
9 certainly try that. And what we have to deal with is
10 that these individual mill agreements are very
11 competitive, because, in fact, the mills are
12 competitors for these agreements. And what we will do
13 is we will collect the information and then we will
14 digest it and then we will give you something in the
15 format of a chart that provides you the maximum amount
16 of information that we can provide you. And I wanted
17 to say the reason I'm saying this is we are told each
18 one of these have a confidentiality clause in it, so
19 that neither the buyer nor the seller can release some
20 of the information without the consent of the other.

21 COMMISSIONER OKUN: I understood that from
22 the panelists.

23 MR. HUEY: We will make a maximum effort to
24 secure the consent. Candidly, we may not be able to
25 tell you exactly who the buyer is, but to give you

1 some idea of the volumes, et cetera. We may identify
2 them as x, y, and zed. We will do whatever is
3 necessary to get the maximum amount to the Commission,
4 to demonstrate the commitments that the three Japanese
5 mills have made in this product area.

6 COMMISSIONER OKUN: Okay. I appreciate
7 that. I look forward to seeing that in post-hearing.

8 Mr. Morse, if I could turn to you. You had
9 explained, I think, I just want to make sure I
10 understand your testimony, in looking at the capacity
11 expansions that the domestic industry is proposing --
12 I think it was you and Mr. Santa made comments on
13 this, as well -- you are basically saying you believe
14 -- when you are looking at it, you think three of
15 these four announced expansions are likely to come on
16 line and that additional capacity, which I think you
17 put in maybe the 700,000 ton range, is really going to
18 be available in 2009. So for your immediate needs or
19 your 2007-2008 needs, you are not taking into account
20 the additional domestic industry capacity. Is that
21 what you were saying? I just want to try -- make sure
22 I understood the capacity constraints in the United
23 States, as you see it.

24 MR. MORSE: There are a couple of things
25 here. The 700,000 number in my testimony is the

1 amount of steel that TransCanada is currently in the
2 process of purchasing, okay. Relative to what I think
3 your question was is our view of, I'll call it the
4 supply and demand balance over the next few years,
5 where we're very confident that from now until the
6 time these new plants come on line, there is way more
7 demand than there is supply available. And we believe
8 that even in 2009, with the new facilities on, that
9 there will be excess demand in the United States for
10 the supply that's available, including three new
11 facilities.

12 COMMISSIONER OKUN: Okay.

13 MR. MORSE: So, I think from how you
14 described that testimony that was from ours, about
15 three of the four mills, that's fine. The one mill,
16 U.S. Steel, we just haven't heard anything about. In
17 our talks with our vendors, they just -- we haven't
18 gotten much information from them. So, based on that,
19 that's why we said we feel confident three of the four
20 will go, because the other three have contacted us and
21 given us assurances and we've heard of their
22 groundbreaking and things like that. And as far as
23 when they come on line, and we've seen this with a lot
24 of new mills, and it happened with Dura-Bond, too,
25 when they started up, they may set a date for when

1 they think they're ready to make pipe, but it just
2 seems like that's never very accurate. It always
3 tends to slip later. And then even once a mill has
4 the machinery in place and the people trying to make
5 pipe, there's kind of learning process or a breaking-
6 in process a mill has to go through before they can
7 get up to high volume of high x-grade pipe. And
8 that's why we're saying even though these three mills
9 that we feel very confident will be built, even though
10 they're saying they would start producing pipe in -- I
11 think now, they're saying the fourth quarter of 2008,
12 that it would probably be another six months after
13 that before they have all the kinks worked out and
14 have progressed up through the strengths of steel to
15 produce the kind of steel we need for our pipelines.

16 COMMISSIONER OKUN: Okay. I appreciate that
17 clarification. And then -- oh, yes, Mr. Morse?

18 MR. MORSE: And if I might, I think in the
19 testimony this morning, it was clear that one of those
20 mills that went on line recently, the Oregon Steel
21 Rural Mill, encountered fairly significant
22 difficulties starting up for a number of months. And
23 as a result, they had to subcontract to somebody else,
24 to make a commitment to the Rockies Express pipeline.
25 So, that's an example of the difficulties once a mill

1 actually starts on line before it actually gets to the
2 point where it's consistently producing pipe of the
3 appropriate quality.

4 COMMISSIONER OKUN: Okay. And then this
5 question would probably be to the same, Mr. Fisher and
6 Mr. Morse. Mr. Morse, I will start with you. You had
7 talked about the effort to obtain North American
8 Supplies for the projects that you mentioned. The
9 Petitioners noted this morning that Japan participates
10 in the Canadian market. I wanted to know whether you
11 had experience in purchasing Japanese product that's
12 in the Canadian market and then whether there are any
13 distinctions between, as you see it as a purchaser,
14 between the Japanese, the global player, and other
15 North American suppliers that you purchase from. And
16 then, if you could further just talk about that versus
17 non-subjects. And there's a lot of non-subject
18 product in this market already. Any distinctions?

19 MS. PAUL: So, perhaps, if I may, I could
20 respond to that. In the Canadian marketplace, we are
21 open to all suppliers worldwide. We have dealt for a
22 number of years with particularly the Japanese
23 suppliers and we have actually been very -- I think
24 the word would be 'specific' about the products they
25 are interested in producing for us. They have

1 actually declined to bid on significant quantities of
2 our demand, because it doesn't meet the -- or just the
3 product mix that they are looking for.

4 In terms of other non-subject countries
5 capacity or capability, we have most recently started
6 to expand our look or horizon on those countries and
7 are looking for those sources of supply to meet the
8 demand that we foresee and that we are currently
9 experiencing. And that doesn't come without its
10 challenges, as well, both in qualifying those types of
11 facilities becomes quite a long complex process, and
12 the logistics can't be under stressed or understated
13 in bringing those materials to the North American
14 marketplace. So, we have been spending quite a bit of
15 time looking at both of those. So, I hope that
16 answers your question.

17 COMMISSIONER OKUN: Mr. Fisher, would you be
18 able to comment on that at all, in terms of -- I think
19 you had also referenced qualification processes and
20 whether with the large amount of non-subject in this
21 market, whether -- you know what, my red light has
22 come on. I will come back to you. Mr. Chairman, I
23 will ask it on my next round.

24 CHAIRMAN PEARSON: Commissioner Lane?

25 COMMISSIONER LANE: Maybe, he'll give you

1 some of his time, too.

2 (Laughter.)

3 COMMISSIONER OKUN: Which I'd happily give
4 to Roger Schagrín.

5 MR. SCHAGRIN: I wrote that down. Next
6 Tuesday, I'll need four minutes.

7 (Laughter.)

8 COMMISSIONER LANE: Sorry. The doctor said
9 I wasn't sick, but I can't help it if I start
10 coughing.

11 Mr. Santa, I appreciate your testimony that
12 large pipe line projects have done their homework and
13 groundwork before they come to FERC. However, that
14 doesn't guarantee success and there have been some
15 significant failures; for example, the Independence
16 pipeline project proposed for Chicago to eastern
17 Pennsylvania. I think that project might have been
18 filed at FERC in 1996 and was approved in 2000. I
19 understand that the project was canceled in 2002,
20 based on lack of market support. Are you aware of
21 similar projects having long lags at FERC and is it
22 easier to certificate and cite projects in the east
23 than in the west?

24 MR. SANTA: Ms. Lane, yes, there have been
25 some other isolated projects that have run into

1 significant delays; for example, the so-called
2 Millennium project in New York State, the Islander
3 East project that was supposed to go across Long
4 Island, from Connecticut to New York State, Long
5 Island. However, those are isolated instances.

6 Also, in terms of the market support
7 collapsing, I think one of the things, it was talked
8 about earlier today, the circumstances surrounding the
9 Enron collapse and the implosion of the Berkshire
10 power market and how that effected the pipeline
11 market. And, yes, part of that was the fact that
12 interstate pipeline companies often were part of
13 bigger integrated energy companies that engaged in
14 merchant generation and energy trading and that left
15 them in a weakened state.

16 The other thing that happened is that for a
17 lot of the projects that were on the books at that
18 point in time, in other words, proposed, the shippers
19 on those projects often were merchant generators or
20 were energy marketers. And as they were weakened, as
21 some of them went into bankruptcy, as they clearly had
22 credit problems, their ability to sustain themselves
23 in the market and remained committed to those projects
24 went away.

25 A significant difference with a lot of the

1 projects that we are seeing today, as opposed to being
2 these kind of market pull projects, where it's a
3 marketer or sometime user, who wants it, these are
4 really supply-push projects. These are projects where
5 it is the natural gas producers or the marketers, who
6 are buying gas from those producers, who are signing
7 up for capacity on these projects to bring gas to the
8 market. And so, I think that is a significant
9 difference. And in many cases, these, who are signing
10 up for capacity, are some of the major energy
11 producers, who have got very, very strong balance
12 sheets.

13 In terms of the opposition to pipelines, if
14 anything, I think the places that it has been the most
15 difficult have been those that have been closest to
16 the markets. It's very difficult, at times, to get
17 projects built in the northeast, New England, the mid-
18 Atlantic, where they are densely populated areas and
19 where you get a lot more of the not in my backyard,
20 not on my beach type of an opposition. Projects in
21 the west, especially where a lot of them are
22 transversing federal lands, it's less densely
23 populated, easier to get them done. Yes, there have
24 been instances where projects, even post-
25 certification, have run into opposition, that have

1 significantly delayed them, but I do think those are
2 the limited exceptions . And, also, I think the
3 instances where the market support hasn't been there
4 was, in fact, went, in many cases, to the collapse of
5 the merchants sector that coincided with the
6 California debacle and Enron.

7 COMMISSIONER LANE: Perhaps, you could
8 follow-up on that and you could provide me post-
9 hearing the number of certificates that have been
10 granted by FERC in the last 10 years for pipeline
11 projects and then the number that have actually been
12 built during that 10-year period.

13 MR. SANTA: We will to the best of our
14 ability compile that data and include it in our post-
15 hearing brief.

16 COMMISSIONER LANE: Okay, thank you. Now, I
17 have some more questions for you. A few years ago,
18 there was considerable excitement and investment in
19 natural gas combustion turbine electric generation
20 facilities. While some of these facilities considered
21 an immediate or future combined cycle addition, most
22 were built as simple combustion turbine units. In
23 some cases, these facilities that had been built to
24 provide both peak and shoulder period generation was
25 sold at deep discounts to electric utilities to be

1 used solely as peaking units. I have two questions
2 relating to these gas-fired electric generation
3 facilities. First, are there any existing combustion
4 turbine facilities that are currently being fitted
5 with a steam cycle and, if so, can you identify those
6 facilities and the timing of their conversion to
7 combined cycled units?

8 MR. SANTA: Ms. Lane, I don't know the
9 extent of that answer, but will -- we can compile that
10 data and include it in our post-hearing brief, we will
11 attempt to do so.

12 COMMISSIONER LANE: Okay. And second, are
13 there any new gas fire generation facilities on the
14 drawing board and are they planned to be straight
15 combustion turbine units or combined cycle units when
16 completed?

17 MR. SANTA: I do know -- I do not have a
18 comprehensive answer to that. I do know that some of
19 the Florida utilities have plans to put in new gas
20 fire generation. As a matter of fact, in my
21 testimony, I noted the fact that -- and this is based
22 on a report published by the Florida Department of
23 Environmental Protection in January of 2006, that I
24 believe it was 80 percent of the new electric
25 generating capacity in Florida over the next 10 years

1 is projected to be gas fired. And in fact, I think
2 recent events in Florida have confirmed that, and that
3 is you might be aware in Florida, there recently have
4 been several coal plants proposed that have been
5 turned down. And I think that while there is an
6 interest on the part of some in new coal fired
7 generation, it has run into significant opposition
8 across the country and really leaves gas in the near
9 term as one of the only defaults. And I would like to
10 point out that interestingly this morning in the Wall
11 Street Journal on page one was an article that was
12 called 'Coals Doubters Block New Wave of Power
13 Plants,' and that article talked about the Florida
14 situation, the situation in North Carolina, Texas, the
15 West Coast, and talked about the predicament where
16 there's a lot to be said for coal, in terms of the
17 cost, as compared to gas fired generation; but by the
18 same token, when it comes down to individual
19 applications to build coal fired facilities, they've
20 run into opposition for a number of reasons.

21 COMMISSIONER LANE: I read that same article
22 and thinking about today's hearing, all I could think
23 of was fortunately, West Virginia, in addition to
24 being a coal state, also has a lot of natural gas
25 reserves. So, I thought, well, we might be in trouble

1 with coal, but we still have natural gas. And I
2 appreciate that. And I guess, also, that same article
3 talked about nuclear power and I am assuming that
4 because of the long period of time that I would take
5 to plan nuclear power facilities and get them built,
6 that that also is an opportunity for natural gas.

7 MR. SANTA: I believe it is. And I am not
8 an expert on nuclear power. Based on a financial
9 conference I attended up in New York City that
10 included a number of the utilities that are interested
11 in nuclear, as I recall, their statements that with
12 the most kind of reasonably optimistic time line, you
13 are probably not talking about a new nuclear power
14 plant entering service until the latter half of the
15 next decade. And some would say that even that is
16 somewhat optimistic.

17 COMMISSIONER LANE: Okay, thank you.

18 MR. MORSE: Ms. Lane, if I might, in markets
19 that I'm familiar with on the West Coast, and I will
20 have to tell you that it may be easier to build
21 pipelines in the west, but I would exclude California
22 from that description. There are a number of new
23 power plants currently under construction in
24 California. There are five peaking turbines being
25 constructed by Southern California Edison Company to

1 go into service they are hoping by August 1st of this
2 year to meet peak demand in this air-conditioning
3 season this summer. At the same time, there's a 500
4 plus megawatt combined cycle plant going in, in San
5 Diego, known as the OTI Mesa Plant, and they recently
6 completed another facility in the San Diego area, I
7 think near Escondido, another between 500 and 600
8 megawatt combined cycle plant. So, there are both
9 types of facilities being built, both simple cycle
10 combustion turbines, primarily for peaking purposes,
11 and then combined cycle facilities for base load and
12 shoulder purposes.

13 COMMISSIONER LANE: Okay, thank you. Thank
14 you, Mr. Chairman. I will wait until the next round.

15 CHAIRMAN PEARSON: Commissioner Williamson?

16 COMMISSIONER WILLIAMSON: Thank you, Mr.
17 Chairman, and I, too, welcome the witnesses and
18 express my appreciation for their testimony.

19 I was wondering from the INGAA members, if
20 you're planning a project and you're planning to use
21 imported pipe, how much longer do you usually plan for
22 your procurement process?

23 MR. DAVID FISHER: I would say as a general
24 rule on the buying cycle, we normally add a month, an
25 extra month for any overseas shipment, just for ocean

1 travel, handling of pipe at both docks. Are you
2 talking about even negotiation of an order?

3 COMMISSIONER PINKERT: Well, the whole
4 process, does it take longer if you're going to -- I
5 mean, you said it takes a month extra for
6 transportation. What about other processes?

7 MR. DAVID FISHER: Well, it all comes down
8 to the mill's availability. If a foreign mill can
9 produce a pipe faster than we have, we have no issue
10 with that. I'm not sure I'm talking on your question.

11 COMMISSIONER WILLIAMSON: Well, that --

12 MR. DAVID FISHER: Okay.

13 COMMISSIONER WILLIAMSON: -- answers the
14 question.

15 MR. GILLESPIE: I would add that, as I
16 mentioned in my testimony, that to the extent that the
17 mills have not been qualified, there is an additional
18 time investment to take our team over to the foreign
19 mill to qualify those versus a domestic mill. We
20 estimate about four additional week's time to do that
21 qualification process, as well.

22 COMMISSIONER WILLIAMSON: Okay.

23 MS. PAUL: I might add, we don't actually
24 plan to use foreign supply as a pipe. Our desire is
25 to use our U.S. market, U.S. pipe, and certainly

1 domestic pipe in North America. Should we be required
2 to meet the time lines of our project and the in-
3 service states, then in those cases, we are often
4 forced to look to overseas suppliers and experience
5 the time frames that have been expressed.

6 COMMISSIONER WILLIAMSON: Okay. And I
7 think, did I understand you correctly, Mr. Morse, did
8 you say that usually you figure 15 to 35 percent extra
9 cost for sourcing from overseas?

10 MS. PAUL: In fact, I will speak to that.
11 It depends on the location and the supplier, but we
12 see sometimes between 15 and 35 percent additional
13 costs that need to be applied for logistics. And it's
14 very difficult to both forecast and pin those costs
15 down and many times, you don't have the opportunity to
16 actually be able to realize them until you're actually
17 moving -- signing contracts to move your pipe into the
18 marketplace. So, it is quite substantial and I think
19 it's quite important when you compare the costs of
20 international suppliers with domestic suppliers, in
21 that those costs, we, frankly, look at what the landed
22 price is of bringing that steel into the marketplace.

23 COMMISSIONER WILLIAMSON: Also, Ms. Paul,
24 have you seen many other instances where the foreign
25 supplier has, say, refused to bid? You mentioned

1 cases of Japanese companies not bidding, because the
2 specifications aren't what they wanted to supply. Are
3 there many other instances of this?

4 MS. PAUL: Certainly, in the near term 2008
5 is a very, very tight market and in 2008, we, as I
6 indicated before, have been unable to source -- or had
7 great difficulty sourcing the supply we need for those
8 time frames, in the domestic market or in the
9 international market. And so while many suppliers
10 would like to supply, frankly, they're just booked.

11 MR. GILLESPIE: Our experience recently has
12 been that with the exception of a mill, who has booked
13 -- a foreign mill has booked capacity-wise to meet our
14 delivery date, we are seeing them respond to our
15 solicitations. They're not walking away from an
16 opportunity to bid on a project for our organization.

17 COMMISSIONER WILLIAMSON: But, again, it's a
18 question of availability. The reason I'm posing these
19 questions, I think there was some expressions that
20 maybe the U.S. companies can't meet your needs or meet
21 your demands. It sounds like it's not a question of
22 U.S. versus other countries, as far as another
23 country, it's basically individual companies and their
24 situations and that there are a lot of problems going
25 overseas.

1 MS. PAUL: I might offer there is
2 significant differences between specifications between
3 the small diameter and the large diameter capabilities
4 and most definitely, there is more capacity available
5 in the smaller diameter range. So, I might include up
6 to about 24 inches. Twenty-four inch OD and above
7 become significantly more constrained and that's where
8 you're going to see variances between different
9 suppliers and what their capabilities are.

10 COMMISSIONER WILLIAMSON: You said in the
11 U.S. and overseas market or -- is the difference
12 between the U.S. and overseas suppliers or just in
13 general?

14 MS. PAUL: More specifically in the U.S.
15 suppliers, there is, from our perspective,
16 significantly more capacity available in the smaller
17 diameter ranges. And when you go for the large
18 diameter, at least as we define greater than 24
19 inches, the capacity is significantly more
20 constrained. We have not had to explore the smaller
21 diameter ranges as aggressively in the international
22 market, because the constraint isn't as tight on the
23 smaller diameter ranges.

24 COMMISSIONER WILLIAMSON: Okay.

25 MR. DAVID FISHER: I'd like to add to that.

1 It does seem that 24-inch and under availability is
2 much better and you heard American Steel Pipe and
3 Stupp testify to that today, their lead times aren't
4 out as far. Where our problem comes in as a pipeline
5 company is on pipe larger than 24 inches. And it has
6 been our experience lately that supply is tight
7 worldwide and that's one reason why we're here, is
8 we're seeing that, well, domestic mills are booked.
9 That's kind of forced us to start looking overseas.
10 We're seeing that a lot of the mills that are
11 qualified overseas are now getting booked. So, that's
12 why, in this period, we would like to have as many
13 options available to us as possible.

14 MS. PAUL: And I might also add, the demand
15 that we spoke to and Mr. Morse spoke to in his
16 testimony is for large diameter pipe, 30 inches and
17 over. We have a very small demand for the smaller
18 diameter; but, predominantly what we're talking about
19 is the larger diameters.

20 COMMISSIONER WILLIAMSON: Okay, thank you.
21 Now, is that project using relatively more larger
22 diameter -- large diameter pipe than they might have
23 in the past or is this been a long-time situation?

24 MR. DAVID FISHER: One thing that we've
25 experienced is in El Paso system, we do not have

1 currently any mainlines that are larger than 36 inch.
2 But, yet, it seems like now, in the market, a lot of
3 the new cross-state, interstate pipelines that are
4 being planned, including many of our own, are now 42
5 inch. So, I don't really know the basis behind that
6 movement. It may just be they want these pipelines to
7 carry more capacity. But, we have noticed that in the
8 last few years. In the past, most of our large OD
9 trunk lines were 30 and 36 inch. Now, it looks like
10 going forward, that might shift up to 42 inch.

11 MR. GILLESPIE: One additional thought to
12 keep in mind is that depending upon the availability
13 of the pipe, as I mentioned earlier in my testimony,
14 that there are seasonal constraints and even
15 regulatory constraints that are placed upon us, that
16 if we're unable to access that pipe within that
17 particular period of time of the year, we're going to
18 lose that construction cycle and have to delay that
19 project for another year. And that has impacts to our
20 organization and to our customer base, when we can't
21 deliver the capacity that we've committed to. So, I
22 want you to be aware that there are other constraints
23 beyond just getting pipe and beginning a project today
24 and delaying it for a couple of months. A delay could
25 require us to postpone the project for another year.

1 MR. SANTA: What Mr. Gillespie is referring
2 to is the fact that under the FERC certificates, there
3 often are conditions that limit the construction
4 window to a set number of months per year, primarily
5 due to environmental concerns; for example, endangered
6 species and when they may be mating or things of that
7 nature that limit the number of months within which
8 the pipe actually can be onsite and be constructing.

9 COMMISSIONER WILLIAMSON: Okay, thank you.
10 Have there been incidents where you had no U.S.
11 bidders -- I mean, no U.S. producers willing to bid on
12 your projects?

13 MS. PAUL: I think in the near term, it's
14 safe to say we're not able to secure the quantities of
15 pipe that we've acquired, as you heard described
16 earlier, for our construction of the demand that was
17 stated in our testimony from the U.S. market. So, for
18 Chile, simply, they were not able to supply the demand
19 we needed and the specifications required.

20 COMMISSIONER WILLIAMSON: And this is given
21 a project with long lead times?

22 MS. PAUL: We are now buying that pipe
23 approximately 16 months in advance of construction and
24 have had to delay or reconfigure our construction
25 schedules to meet the quantities of pipe we are able

1 to acquire. So, perhaps, maybe I'll just be clear, we
2 are able to get some of it, but, by no means, meet the
3 required quantities that were originally intended.

4 COMMISSIONER WILLIAMSON: Okay, thank you.

5 CHAIRMAN PEARSON: Commissioner Pinkert?

6 COMMISSIONER PINKERT: Thank you, Mr.
7 Chairman. Let's go back to Mr. Winton, Mr. Benitez,
8 Mr. Gutierrez, and ask you, given the upturn in global
9 demand and the existence of unused capacity in Mexico,
10 why didn't Mexican producers export to a greater
11 extent during the period of review?

12 MR. GUTIERREZ: Okay. This case, I will
13 speak on behalf of my company. The percentage that we
14 export to the United States, it's only somewhere
15 around 15 or 20 percent of overall production
16 capacity. That's for the export market. And from
17 that, what we export actually to the United States is
18 probably 20 percent of that, mainly because we are
19 more active in Central and South American markets.
20 There is also another think that works to -- probably
21 has something to do with this, is that no one in
22 Mexico from -- by the way that we manufacture pipe in
23 Mexico, ERW, no one in Mexico produces coil that wide
24 that we turn into 24-inch pipe. So, we have to import
25 that raw material, which is also more expensive than

1 buying regular raw material. So, that's probably one
2 of the reasons that we haven't been exporting that
3 much to the U.S. I don't know if that answers all of
4 your question.

5 MR. WINTON: Maybe, I should clarify,
6 because we have an issue in talking with Jesus. Their
7 product range covers mostly non-subject merchandise.
8 They go from six to 24. When he says, 'we don't
9 export that much to the United States,' that's of
10 anything, subject, non-subject, together. There are
11 reasons -- you know, I think while I listened to Mr.
12 Schagrin, he's really saying something very different
13 than his witnesses are saying about what capacity
14 means. We heard from the U.S. industry today that the
15 decision to go from one shift to two shifts, two
16 shifts to three shifts is a very big jump. In one of
17 the cases, they say it's 150,000 tons. And you had to
18 train people and it didn't make sense unless you had
19 nine to 12 months of production that you were sure you
20 were going to keep them, because, otherwise, it just
21 didn't make economic sense. And so, you heard the
22 U.S. producers say, we have this theoretical capacity,
23 but we don't use it, because it doesn't make economic
24 sense to add a whole shift, because our supply, it's
25 not a smooth curve. It's a jump.

1 But when they talk about the Mexican
2 producers, we have capacity that's coming into the
3 United States, as if the same constraints don't apply
4 in Mexico. And, obviously, that's not the case. And
5 Jesus and I were talking, they are not operating three
6 shifts a day and they're reluctant for the reasons you
7 heard today to add a shift, because it's a big
8 investment. The same thing with Tubacero, you know
9 they're -- so, it's not just a matter of, oh, here's
10 an opportunity, let's export some more. And you see
11 historically, this capacity that's existed in Mexico
12 for these companies, as we've explained in our pre-
13 hearing brief, and I think we may have given the wrong
14 impression, because we certainly didn't want to say
15 that it is a dilapidated, decrepit industry, but the
16 fact is, all of the capacity that exists today existed
17 in the 1980s, existed in the 1990s, existed at the
18 time of the original investigation, at a time when
19 demand in Mexico was worse than it is today and, yet,
20 the capacity didn't come to the United States. It
21 just wasn't used, because they're constrained by the
22 same reasons that the U.S. producers explained, just
23 because you have the capacity doesn't mean you use it.

24 So, that's the situation, I think, for the
25 Mexican producers. There are constraints, in terms of

1 the materials, as Jesus was saying, for the ERW
2 producers to produce the larger diameters, where he
3 goes up to 24 inches, but he can only produce 24
4 inches if he imports the steel coil, because the
5 Mexican producers of steel coil only produce coil wide
6 enough to make 20 inches. So, it doesn't mean he
7 doesn't produce 24 inches, but it means he has a
8 penalty when he produces 24 inches, because there are
9 additional freight costs, more expensive to get the
10 product, the coils to him, where he then turns into
11 pipe and then -- so, it may not -- there is a penalty
12 for him to bring that to Mexico and then ship it back
13 to the United States. He's not competitive with that,
14 with those larger sizes for him.

1 COMMISSIONER PINKERT: Turning now to the
2 lawyers and the economists on the panel, what impact
3 have non-subject imports had on domestic pricing over
4 the period of review? And is that likely to change if
5 the orders are revoked?

6 MR. KLETT: If you look at non-subject
7 imports, and I think it was one of my slides, but
8 basically from 2005 to 2006 I think non-subject
9 imports tripled. In the first five months of 2007
10 compared to a comparable period for 2006, I think they
11 tripled again. At the same time large diameter line
12 pipe pricing I think increased a bit in both of those
13 years based on information in Preston Pipe and Tube
14 reports for large diameter line pipe.

15 I think what this reflects is that demand in
16 the United States has been very strong. U.S.
17 producers have not been able to meet that demand. And
18 consequently, non-subject imports have been pulled
19 into the market. If non-subject imports were pushed
20 into the market you would have seen prices decline,
21 and in fact they increased. I think that's consistent
22 with the testimony from Ms. Paul about their needing
23 to go off-shore to procure non-subject import sources
24 of supply.

25 MR. HUEY: I would just like to say, Mr.

1 Pinkert, that I agree completely. As I said in my
2 opening statement, what you have here is a situation
3 in which the domestic producers were able to increase
4 their prices in the face of two very significant
5 elements that you would assume would make it very
6 difficult if not impossible to increase their prices.

7 The first, of course, are the non-subject
8 imports. Second, as the Commission realized in the
9 plate sunset review, the demand for plate is very very
10 high. Consequently the price of plate has gone up.
11 But what is so interesting with respect to the
12 domestic large diameter line pipe producers,
13 notwithstanding the increasing prices that you saw in
14 your plate sunset review, they are still able to
15 increase their prices at a rate faster than their
16 input prices are going up in the face of significant
17 increases in non-subject merchandise. That, frankly,
18 is why we think, it's one of the elements
19 demonstrating that demand is so strong in the United
20 States.

21 Thank you.

22 COMMISSIONER PINKERT: Following up on that,
23 if the orders are revoked, would any increase in
24 subject imports likely come at the expense of non-
25 subject imports? If so, why?

1 MR. KLETT: I think non-subject imports are
2 a huge part of the U.S. market right now, so I would
3 expect that if there was an increase in imports from
4 Japan consequent to revocation of the order, whatever
5 that volume may be, there would be, some of that
6 increase would be at the expense of non-subject
7 imports.

8 I can't sit here today and tell you exactly
9 the percentage at the expense of non-subject imports,
10 but I think there would be some, yes. I think a lot
11 has to do with the product mix.

12 MR. HUEY: I think, Mr. Pinkert, as the
13 Japanese witnesses have testified, they have a
14 particular product mix, a segment, that they are
15 interested in. Unless you did a complete and full
16 analysis of the product mix that is coming in from
17 non-subject it would be very difficult to do that.
18 That's number one.

19 Number two, I think as was recognized
20 earlier, that a description of a plate merely by outer
21 diameter wall thickness and API grade, which is merely
22 pressure based, sometimes can provide very misleading
23 data because as has been mentioned by both Berg and
24 by us, although different investigations, X70 pipe is
25 not always a common grade, so it becomes very

1 difficult to make that analysis.

2 COMMISSIONER PINKERT: Perhaps, Mr. Huey,
3 you could comment on what impact you expect imports
4 from China to have in the reasonably foreseeable
5 future.

6 MR. HUEY: If I may I'd like to defer to Mr.
7 Klett on that.

8 MR. KLETT: China is a hot topic these days,
9 but at least with respect to large diameter line pipe
10 your census data show that China has not really been a
11 big factor in the U.S. large diameter line pipe up to
12 this point.

13 MS. PAUL: Perhaps I can add.

14 COMMISSIONER PINKERT: Thank you, let me
15 just check to see if we can continue.

16 Mr. Chairman?

17 CHAIRMAN PEARSON: Please continue, Mr.
18 Pinkert.

19 COMMISSIONER PINKERT: Go ahead, Ms. Paul.

20 MS. PAUL: We have also investigated
21 opportunities for Chinese pipe. We have certainly
22 concluded to date that there are not sufficient
23 established channels, nor do we have the confidence
24 that they can produce the quality and standards that
25 we require as we are uncompromising in the quality

1 product that we will bring in to delivery to our
2 projects.

3 So at this point they are not a supplier
4 that we are looking to.

5 MR. McCULLOUGH: Commissioner Pinkert, real
6 quick. In the Standard Pipe case, if you look on the
7 public record there you will also find that with
8 respect to pipe the Chinese have eliminated a VAT
9 rebate for exports on pipe in its entirety, I believe
10 it was 13 percent, and they are also imposing an
11 export tax on steel products including pipe which I
12 think will further inhibit exports of pipe to this
13 market.

14 COMMISSIONER PINKERT: Thank you.

15 Thank you, Mr. Chairman.

16 CHAIRMAN PEARSON: Commissioner, did you
17 have further questions that you wanted to pose at this
18 time, or will your constraints allow you to take a
19 minute the next round?

20 COMMISSIONER PINKERT: I believe I'll be
21 able to for the next round. Thank you.

22 CHAIRMAN PEARSON: This is now doubt on the
23 record, but if you tell me now I'll actually remember
24 it.

25 Is it feasible to make X80 or higher grade

1 pipe using the HSAW process, the helical submerged arc
2 welding process.

3 MR. DAVID FISHER: Is that a question to us?

4 CHAIRMAN PEARSON: Yes.

5 MR. DAVID FISHER: To anybody?

6 It's been our understanding that HSAW pipe
7 can be made in grade X80 just as easily as ERW or
8 straight seam LSAW pipe can.

9 MS. PAUL: We have the same expectation. We
10 will accept HSAW in grade X80.

11 CHAIRMAN PEARSON: So the issue that was
12 mentioned by one of the Japanese producers about the
13 fact that there is a longer weld on a helical welded
14 pipe and that can raise some concerns, that's not a
15 material issue if quality standards are met?

16 MR. DAVID FISHER: Depending on the service.
17 I think what he may have been referring to would be
18 highlighted more in a sour gas service. In the sweet
19 gas service on-shore like we have, the amount of weld
20 in a pipe is not that big a concern.

21 MR. MIKI: Mr. Chairman?

22 CHAIRMAN PEARSON: Yes, please.

23 MR. MIKI: Heiki Miki, JFE Steel.

24 The comment we made regarding spiral pipe is
25 that we understand that spiral pipe vice making pipe

1 with spiral method, you can achieve X70 to X80, but
2 the reason we said that, we see the differentiate
3 between spiral pipe and some other pipe is because can
4 they use that for off-shore application or very
5 straight sour gas application. That's the reason we
6 make that comment.

7 CHAIRMAN PEARSON: Thank you for that
8 clarification.

9 How about the wall thickness on the spiral
10 pipe? Is there some maximum limit on the wall
11 thickness that could be a constraint for the types of
12 uses to which it might be put?

13 How thick can you get coiled --

14 MR. DAVID FISHER: I would say it's
15 equivalent with the information you might have on ERW
16 pipe since both are made from coil.

17 I can't quote exactly, but it seems to me
18 like once you get above a 625 wall coil, that's about
19 the highest you can commercially get. Thicker than
20 that we would have to start looking at probably having
21 to supply our pipelines with LSAW pipe made out of
22 plate.

23 CHAIRMAN PEARSON: Okay. Thank you.

24 What's your understanding as a panel of the
25 main incentive for the domestic industry to expand in

1 HSAW production? Is it cost reduction or is it
2 optimism about the demand prospects for the future?
3 Or is it both?

4 MR. GILLESPIE: I guess my take on it is two
5 things. One, that they see spiral mill, the adoption
6 of helical spiral weld pipe as the future. As many
7 folks have testified today, that's a new phenomena
8 that we're evolving to. That's an opportunity for the
9 future.

10 They also see that the foreign investment
11 here domestically is something that they need to
12 compete against.

13 CHAIRMAN PEARSON: Any other comments? Mr.
14 Morse?

15 MR. MORSE: I guess I would say I put some
16 spiral pipe in the ground I think in 2002 and we've
17 seen spiral pipe going in in projects that I'm
18 familiar with for longer than that.

19 So I believe there is clearly a cost
20 advantage to spiral pipe.

21 Also I would guess that as they see that
22 pipelines are looking for X80 pipe and X80 pipe can
23 be, is thinner wall which can be produced on a spiral
24 basis, that they see that as a way to move into that
25 market which frankly they have not, most of them have

1 not participated in the X80 market for a number of
2 years. This is one way for them to get into that
3 market.

4 MR. KLETT: Mr. Chairman, this is Dan Klett.

5 One new entrant that wasn't testifying this
6 morning, PSL, in their press release in terms of their
7 reasons for investing in spiral weld in the U.S., it
8 was basically demand driven, an imbalance between
9 supply and demand, positive expectations with regard
10 to demand in the U.S., LNG replacement of existing
11 infrastructure, the kinds of things that the Engel
12 witnesses testified to.

13 CHAIRMAN PEARSON: Does the domestic
14 pipeline industry have a parochial interest in keeping
15 domestic pipe mills running and viable? Or are you
16 somewhat neutral between getting an overseas supply
17 and domestic supply?

18 MR. GILLESPIE: We prefer the domestic
19 alternative. There is risk inherent in procuring this
20 material overseas that we prefer not to have to take
21 on.

22 Our preference is domestic, and we're
23 working with our supply base to try to find
24 availability solutions to meet our demands. But all
25 things equal, we would prefer to be able to utilize

1 domestic mills.

2 MS. PAUL: I would echo the same comments.
3 Our preference is most definitely domestic suppliers
4 that can meet our qualifications and our specification
5 standards at a competitive price in the market.

6 We are very aware of some of the challenges
7 in bringing foreign pipe into Canada and the U.S.
8 specifically, and have experienced some of the
9 challenges with logistics and delays and those types
10 of things and are also aware of how costly those can
11 be.

12 So without doubt for our U.S. market and our
13 U.S. projects we most definitely would prefer where
14 possible domestic.

15 CHAIRMAN PEARSON: Does anyone have anything
16 they could put on the record that would indicate an
17 instance where perhaps some preference had been given
18 to buying from a U.S. mill? The domestic industry, as
19 I understand it, has the view that price is always
20 going to win once the quality requirements are met.
21 And yet if indeed you have a strong interest in
22 maintaining a viable U.S. industry, then there would
23 be some concern about having mills with too much down
24 time in the United States lest they be disassembled,
25 go out of business.

1 If you have anything like that that you
2 could put on the record that would kind of back up the
3 thesis that it's important to you to keep them
4 running, that would be good to have.

5 Mr. Pierce?

6 MR. PIERCE: It's going to be extremely
7 confidential information, but we're willing to put on
8 the record what you've seen before in other steel
9 cases quite common to domestic price premium, what
10 companies are willing to pay all things being equal, a
11 higher domestic price. We will give you what evidence
12 we can on that, but it's very confidential and it will
13 be under APO.

14 CHAIRMAN PEARSON: Thank you. I appreciate
15 the confidentiality.

16 The domestic industry appears to be
17 generally less optimistic about demand prospects for
18 the next few years than your panel has been, and
19 perhaps that's not surprising. Are the risks to the
20 domestic industry if the orders are revoked greater
21 than the risks to your industry if the orders remain
22 in place? I say that in the knowledge that your
23 industry has access to some degree to non-subject
24 imports and the domestic producers may argue that they
25 have access basically just to the U.S. and perhaps the

1 Canadian markets and not much beyond that. So they
2 look at the home market as the whole enchilada and you
3 have greater possibilities for obtaining supplies than
4 they have for obtaining additional demand, if that's -
5 - I might be putting words into their mouth, but I
6 don't think they'd disagree too much with that
7 proposition.

8 Any comments?

9 MS. PAUL: Perhaps I might just offer our
10 experience in the Canadian marketplace whereby all
11 pipe is available into that market.

12 Without question, the domestic supply is by
13 far the preferred supplier for all the reasons stated
14 and they are booked well out into 2010. Then, of
15 course, the U.S. markets are looked to as a close
16 proximity to the Canadian markets.

17 Then following that, if the demand cannot
18 meet for the timeframes required for the projects we
19 will look at offshore solutions to that supply.

20 I think that demonstrates in a market
21 whereby it is open to all supply that in fact domestic
22 is by far the preferred product.

23 MR. WINTON: Commissioner Pearson, I would
24 take issue with the premise of your question because
25 it is absolutely not true that the U.S. industry

1 cannot sell in Mexico. There are instances in which
2 they have. The complaint Berg had has to do with the
3 specific type of pipe, pipe for sour gas applications,
4 where Pemex has specifications requiring I think it's
5 the use of an expander, and I don't know the
6 technology well enough, that Berg doesn't meet. But
7 they are qualified for use in the sweet, in the non-
8 sour applications. And in fact they have supplied
9 recently a pipeline for the CFE, the Mexican Electric
10 Commission, for a gas pipeline in Mexico.

11 So Mexico is part of the market that they
12 supply as well. And I can tell you my client Tubacero
13 feels that they are unfair competitors in the Mexican
14 market.

15 CHAIRMAN PEARSON: Thank you for that
16 clarification.

17 My red light is on. If there is something
18 we should have on the record that we don't making that
19 point, would you please make sure that we have it.

20 MR. WINTON: We'd be delighted to.

21 CHAIRMAN PEARSON: Madame Vice Chairman.

22 VICE CHAIRMAN ARANOFF: Thank you, Mr.
23 Chairman.

24 I actually want to follow up with the
25 conversation that the Chairman was just having with

1 Mr. Gillespie and Ms. Paul about the preference for
2 domestic suppliers.

3 You mentioned the logistical difficulties of
4 bringing in products from overseas and the problems
5 involved with that, so let me ask you. Is the
6 preference for domestic suppliers or for North
7 American suppliers? Would you count Canadian and
8 Mexican suppliers within that preferred range that
9 don't raise logistical difficulties?

10 MR. GILLESPIE: I think that certainly we
11 have a preference for domestic suppliers. We also
12 look at the North America supply base. The risk, it's
13 not just logistical as far as the risk. There is risk
14 of failure at sea, that additional cost of carrying
15 insurance to mitigate those risks. But certainly our
16 preference is the U.S. domestic mills and then the
17 North American mills. As you eliminate some of those
18 risks before the international/overseas supply base.

19 VICE CHAIRMAN ARANOFF: Do you consider that
20 there's a greater risk in dealing with some of the
21 Mexican producers than in dealing with a U.S.
22 producer? Or is it about the same? It doesn't have
23 transportation problems, right? You can put it on a
24 train.

25 MR. DAVID FISHER: The only risk I would say

1 that we feel we have with Mexican producers is we
2 don't have the relationship, we don't have the
3 history. There's been no demonstrated evidence that
4 they can't produce for us, we just don't have a
5 history for them. Whereas we are gaining a better
6 history with pipe producers in Canada.

7 The project that the producers mentioned
8 this morning that El Paso built that put spiral weld
9 on the map, I don't know if that was the term they
10 used or not, but El Paso was traditionally very slow
11 to accept spiral weld, and when we did it was on our
12 Cheyenne Plains project and the spiral weld pipe was
13 supplied by Ipsco in Canada and it was a successful
14 order, a successful project for us.

15 VICE CHAIRMAN ARANOFF: Okay. Well let me
16 go back to the question I was asking in the earlier
17 round about the process of contract formation and ask
18 a little bit more about the bidding process.

19 You've told us you need to do these things
20 earlier than you used to, but I guess now I want to
21 ask about the bidding process itself.

22 When you put a project out for bid is it a
23 one-step process, is there a multiple step bidding
24 process, are people using reverse auctions? How does
25 the process work and how much information do bidders

1 have about other participants' bids?

2 MR. DAVID FISHER: I'll address that first.

3 We have not done a reverse auction yet. We
4 do a sealed bid. And traditionally, like John said in
5 his testimony, we would only bid pre-approved mills.
6 However because of the tightness in the market we have
7 gone to including some bidders that aren't approved
8 and then thinking that if their offer is attractive
9 then we would put them through the qualification
10 process.

11 I don't know if that answers your question
12 on that or not.

13 VICE CHAIRMAN ARANOFF: It starts to. So
14 it's a one-step sealed bid process?

15 MR. DAVID FISHER: Yes, it's a sealed bid
16 process. We evaluate the bids both on their technical
17 capabilities, their ability to meet our spec, the
18 logistics timing, and then hopefully we award based on
19 that one bid process. We may talk to short-listed
20 bidders more about how they plan to produce this pipe,
21 more details of the logistics, but there's not a two-
22 step process.

23 We also keep it confidential who is on our
24 bid list. We don't share with the other bidders who
25 else is bidding on the project.

1 VICE CHAIRMAN ARANOFF: Okay.

2 Ms. Paul, do you have anything different?

3 MS. PAUL: Yes, in fact depending on the
4 project and depending on the commercial arrangement
5 for the project, sometimes we have different
6 requirements. Most recently I would describe it as a
7 multiple round process whereby we're trying to
8 understand the market's capability and willingness to
9 produce the pipe we required for the project.

10 Most definitely as described we would only
11 go to approved bidders and have in fact opened that up
12 to non-approved bidders to determine if in fact they
13 meet both our timeframe required and our commercial
14 requirements, and then to determine if in fact they
15 can meet our qualification specifications as well.

16 So I would say by and large it's most
17 definitely for us, it has been a number of rounds. It
18 is a closed process. We do not reveal to any other
19 suppliers the information that we're getting from the
20 marketplace. And frankly, the negotiation has been in
21 large part with regards to trying to squeak out
22 additional capacity in certain timeframes to meet the
23 requirements of the projects that we have.

24 VICE CHAIRMAN ARANOFF: It sounds as though
25 now in the most recent period availability has been

1 the overriding consideration, but earlier in the
2 review period when availability was less of a concern,
3 what I'm hearing from you is you don't go back to
4 these people and haggle on price. You just take all
5 their bids, you assume that's their best offer, and
6 you pick.

7 MS. PAUL: I might also help by suggesting
8 that because we are so far in advance of these
9 projects, some of the design specifications aren't
10 exactly perfect either. So we try and get to the
11 market with the best information we've got, and as
12 time passes and various stages in the process evolve,
13 some of that information becomes firmer, around
14 exactly what wall thickness is required as the route
15 becomes more firm.

16 So through this, because we are so far in
17 advance of planning some of these projects, it becomes
18 more and more clear both what we need and what we can
19 get. So you try and bring those together as close as
20 you can.

21 VICE CHAIRMAN ARANOFF: Mr. Pierce was
22 indicating that although it's confidential, there is
23 some price premium that you are all willing to pay for
24 a domestic product. So I guess what I'm trying to get
25 at is if you have a bid from a domestic producer and

1 you have a bid from a non-domestic producer and the
2 price difference is a little bigger than the premium,
3 does that mean you're automatically going to take the
4 imported product? Or are you going to go back to the
5 domestic producer and go you know, you're really
6 close.

7 MS. PAUL: I think it's fair to say that we
8 weigh the domestic producer very heavily. We have
9 very long, established relationships with the domestic
10 market, and a high level of I think operating comfort
11 with the domestic market. To the degree that we can
12 certainly deliver in the timeframes required within a
13 reasonable commercial range, we will go that
14 direction.

15 MR. MORSE: I think a very important point
16 there is that key -- timeframe in which we require it
17 for the project. There are many of these projects
18 where the commercial arrangements are such if we don't
19 have the project in service by a specified date, we
20 start paying liquidated damages. If the pipeline
21 cannot provide the service that the customer has not
22 yet paid for but committed to by a certain date, we
23 start paying liquidated damages.

24 So that schedule becomes ever more important
25 and the risk premium that we will consider for a

1 domestic supplier whose ability to get the pipe to the
2 location we know about because of past history versus
3 a foreign supplier, particularly depending on how far
4 away they are, that risk premium can get fairly
5 significant when you've got big LDs hanging on the
6 other end.

7 VICE CHAIRMAN ARANOFF: I appreciate all
8 those answers, and I certainly invite in post-hearing
9 the domestic producers to give us their perspective on
10 the extent to which price haggling plays a part in
11 contracts, and the extent to which other people's
12 pricing information is known when you go into the
13 process.

14 Thank you very much.

15 I wanted to ask one demand-based question.
16 There was some discussion in the direct testimony of
17 this group about liquified natural gas and I got the
18 impression from the domestic industry this morning,
19 they sort of passed over that as something which is
20 sort of like the horizon, it recedes as you approach
21 it. And when we're looking at a reasonably
22 foreseeable period of time, which is usually the next
23 two, maybe a little more years the way the Commission
24 looks at it depending on the industry, how much demand
25 for pipe is that going to generate, LNG going to

1 generate in the next two-ish years? Is there
2 information we have on the record, or could have on
3 the record? And are the LNG terminals and the
4 pipelines that serve them built simultaneously?

5 MR. SANTA: Right now I cannot give you a
6 figure that will actually give you a number of miles
7 of pipe, but let me try to answer the question.

8 A lot of the LNG terminals that have run
9 into trouble on siting are the ones that have
10 generated a lot of headlines. The terminal up in Fall
11 River in Massachusetts; the difficulties with the
12 Sparrows Point proposal up in Baltimore; others that
13 you probably have heard about.

14 What has happened at the same time is that
15 the existing domestic LNG terminals, to the extent
16 that they have the ability to expand capacity, all
17 have greatly expanded their capacity. The Cove Point
18 facility on Chesapeake Bay; the Elba Island facility
19 that's operated by El Paso; the facility in Lake
20 Charles, Louisiana operated by Trunk Line; I think the
21 one up in Massachusetts is somewhat space constrained,
22 but up there to the extent they've done it.

23 They've added greatly to their capacity. In
24 connection with those capacity additions there have
25 been in certain instances pipes that have been

1 expanded and constructed to bring that gas to market.

2 For example, a project called Cypress that
3 El Paso pipeline did to bring some of that Elba Island
4 gas into the Georgia market and down into the Florida
5 market.

6 There's at least one new LNG terminal that
7 has entered service, an off-shore terminal in the Gulf
8 of Mexico. There are a number of projects in the
9 western Gulf region that have broken ground and there
10 are proposals for expanded pipeline capacity with
11 them.

12 The other thing that has happened is there
13 are terminals under construction both in Baja
14 California, in Mexico, and in the Maritime Provinces
15 of Canada where there are new pipelines or capacity
16 additions that have been proposed to bring that gas to
17 U.S. markets in the case of the Baja into California;
18 in the case of the Canadian Maritimes down into the
19 New England market.

20 so I think the difficulties on LNG have
21 caught more of the headlines than have the fact that
22 there is increased market penetration by LNG. That
23 was something I mentioned in the direct testimony in
24 terms of the EIA projects, and it is requiring
25 pipeline capacity.

1 For example, one of the things is that most
2 of the Gulf Coast terminals are in the western Gulf,
3 and yet the pipes that are serving the Eastern markets
4 or in the eastern Gulf region, requires some degree of
5 replumbing the system to get that gas into those pipes
6 and also to get it into the Florida market.

7 VICE CHAIRMAN ARANOFF: Okay. My time has
8 run out but I do appreciate those answers. Anything
9 you have that's not already in the record that would
10 help us to quantify the extent to which these LNG
11 terminal expansions are going to generate pipe demand
12 within our foreseeable period and really pin that down
13 would be very helpful, and I thank my colleagues for
14 their indulgence.

15 CHAIRMAN PEARSON: Commissioner Okun?

16 COMMISSIONER OKUN: Thank you, Mr. Chairman.

17 The first question I'll do for post-hearing,
18 for both Petitioner and Respondents counsel. That is,
19 I think you probably actually did address it in your
20 pre-hearing briefs, but the more I listen the more I'm
21 wondering whether we should be looking at a longer
22 reasonably foreseeable time in light of the kind of
23 extended nature of some of these contracts. So if
24 counsel could just discuss for me whether they think
25 the reasonably foreseeable time period for this

1 industry should be any longer than kind of the two
2 year period that the Vice Chairman just referenced
3 that we've tended to look at, I'd appreciate that.

4 The next question would be for counsel and
5 economists on this panel. That is with regard to
6 vulnerability. For the general counsel's sake, I will
7 note at the outset that of course I'm only looking at
8 this product and this record and will make my decision
9 based on this particular industry.

10 But Mr. Schagrin in his testimony talked
11 about some of the other cases that have been before
12 the Commission recently, OCTG and cut-to-length plate.

13 It raised for me the question of, in looking
14 at your description of the health of this industry,
15 where again, we don't have a long period of
16 profitability, only at the end of the period review.
17 They've had operating losses.

18 My question is how much weight we should
19 give to this later performance, given the statutory
20 requirement that we're supposed to evaluate the
21 economic factors within the context of the business
22 cycle and conditions of competition that are
23 distinctive to the affected industry.

24 MR. PIERCE: You have to give it heavy
25 weight. Your most recent time tells you the most

1 about predicting the future, particularly the
2 reasonably foreseeable future. So I think certainly
3 you have to look most heavily at the most recent
4 performance. It tells you most definitely with
5 respect to vulnerability, to financial health of the
6 domestic industry. It doesn't mean you don't look out
7 further in time, you don't consider the earlier
8 period.

9 But as far as the weight that you give to
10 predict the future you absolutely I believe look
11 logically most closely and put the most weight on the
12 most recent period which here is 2006, which is the
13 most profitable period. That is the status of the
14 domestic industry, its highest profits just as it's
15 entering into that reasonably foreseeable future. Why
16 wouldn't you be looking at that, just as you would
17 look at that period most closely if 2006 was the year
18 of the sharp downturn after 2005. You would take that
19 into account. What's happened most recently as you
20 look into the future.

21 I think in this particular case or any case,
22 you place heaviest weight in a sunset review on the
23 financial performance of the domestic industry in the
24 most recent completed period.

25 COMMISSIONER OKUN: Mr. Huey, Mr. Klett, or

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1 Mr. Winton, any additions or disagreements with Mr.
2 Pierce?

3 MR. KLETT: No, I agree with what he said.
4 We'll expand on that in our post-hearing brief.

5 MR. WINTON: I would only add that the
6 counsel for the U.S. producers has described the
7 earlier part of this five year period as aberrational,
8 as driven by this Enron effect. So if you were
9 looking out to the future as to what was going to
10 happen, I think you'd have to say it's not likely
11 we're going to have an Enron effect.

12 So what's happened in other parts of the
13 period excluding that seems to me a much more
14 reasonable baseline to predict the future.

15 MR. HUEY: If I may, I would like to agree
16 very much with what Mr. Winton said with respect to,
17 both with Mr. Pierce with respect to you traditionally
18 have looked at the latter end of the period. Second,
19 I think that everyone agrees that the initial period
20 of review was dramatically impacted by an economic
21 effect that hopefully will not be repeated and that is
22 the collapse of the merchant industry, best identified
23 by the Enron disaster. To go back and look at a
24 period of time in which we were going through one of
25 the most significant and it turns out illegal

1 activities in the United States, that it behooves the
2 Commission to eliminate that from its analysis as it
3 projects in the future.

4 I would suggest that a closer analogy is to
5 some of the other products that you have looked at
6 that are dramatically or significantly tied to the
7 energy industry, and that would be plate and oil
8 country tubular goods. As one might say, the rising
9 tide lifts all boats.

10 Thank you.

11 COMMISSIONER OKUN: I appreciate those
12 comments.

13 Let me turn back to Mr. Yamamoto and Mr.
14 Miki. I think you referenced this in your testimony
15 but I just wanted to go back to it.

16 The Petitioners have argued, among the
17 arguments Petitioners make is that if we look at the
18 record we see that China as a market for Japanese
19 product has decreased and therefore there is product
20 available to be shipped elsewhere, and that if we look
21 at the pricing data that's on the record, some of
22 which is confidential, that there would be an
23 incentive to move product into the U.S. market, the
24 part that would have been going to China before.

25 Can you describe for me how you see the

1 China market, the Asia market, and your other markets
2 generally in terms of where you see things going in
3 the future?

4 MR. MIKI: Heiki Miki, JFE Steel.

5 Yes, the way we see global market is that
6 global market is very strong. Not only the United
7 States market, the market in China, the market in
8 Russia, the market in Asia, all market is strong for
9 this particular product.

10 If we take a look at Chinese market
11 specifically, first of all yes, there is sharp
12 increase of capacity in China. That has been
13 triggered by a sharp increase of demand in China for
14 this particular product.

15 Our view is that they will not come to
16 export market with that additional capacity.

17 Second, they are not yet come to the point,
18 the additional Chinese mills are not yet capable of
19 producing high end products which we are focusing in.
20 Therefore, there is no way for us to compete with
21 Chinese mills. That's the way we are looking at that
22 issue with China.

23 COMMISSIONER OKUN: Okay, and I'll go to Mr.
24 Yamamoto, but for your purposes, well Mr. Yamamoto, go
25 ahead and comment on that and then I'll follow up.

1 MR. YAMAMOTO: Right. Hirofumi Yamamoto.

2 The growing demand of gas especially by our
3 British market, and the gas pipeline demand is
4 growing, especially India and Middle East to sell to
5 British market. That gas contains mainly sour
6 content. They need sour consistent grade, sour grade.
7 Our Japanese mills, three of us, have an advantage in
8 making sour grade because we have integrated steel
9 mills and that process needs refining, technically
10 making steel plants and plate and piping. We can
11 enjoy high profit in high grade pipe market. We don't
12 have any competition with Chinese mills anywhere.

13 COMMISSIONER OKUN: Okay, and I just want to
14 follow up, Mr. Yamamoto, to make sure I'm clear on
15 this. Is what you describe, to the extent that if I
16 look at the record and see there were a large quantity
17 of Japanese product going to China that then appears
18 from the record to no longer be going to China, do you
19 see that market increasing for you again in the
20 future, or continuing at levels where you are now for
21 the next two or three years?

22 MR. YAMAMOTO: Right now, just interval over
23 two big projects in China, especially the West-East
24 line pipe. They are already number one, two or three
25 years ago, we shipped out big demand. The next

1 pipeline project for the same area, West to East
2 pipeline, we come again next year, it would take two
3 or three years. We expect to export some volume to
4 them.

5 COMMISSIONER OKUN: Okay. Mr. Miki?

6 MR. MIKI: Yes, I would like to add the same
7 comment. In my testimony, I said that JFE reported
8 its highest production volume in 2003 and 2004 because
9 it was producing very large OD and ABO pipe for
10 projects such as in China, this project he just talked
11 about. We are in interval now, and if this project
12 coming up and if these are the products that we are
13 focusing in and if we can find it is appropriate,
14 gives some opportunity to differentiate ourself from
15 Chinese mills, we will certainly consider that.

16 COMMISSIONER OKUN: That's helpful. and
17 this may already be in your brief, Mr. Huey, but if
18 you can just be sure to reference the specific
19 projects that your clients have just talked about to
20 make sure I'm clear on which ones are finished and
21 which ones are going to be bid.

22 MR. HUEY: We will do that. We have more
23 information now on those projects, certainly the
24 second project, than we did when the brief was
25 originally written.

1 COMMISSIONER OKUN: Okay. I appreciate that
2 very much.

3 My light's come on. Thank you, Mr.
4 Chairman.

5 CHAIRMAN PEARSON: Commissioner Lane?

6 COMMISSIONER LANE: I have two questions
7 first for the Japanese steel producers.

8 We have already had a lot of discussion
9 regarding the calculation of Japanese capacity and
10 capacity utilization. Would it be reasonable to
11 assume that Japanese production could easily return to
12 levels of achieved in 2003 and 2004 in the reasonably
13 foreseeable future if you had customers for your
14 welded pipe at those levels?

15 MR. HILL: Commissioner Lane, Steven Hill
16 from Hunt & Williams. Let me start off.

17 It's important to emphasize that the mills
18 are at maximum production of what they can put out.
19 That is essentially with respect to an LSAW mill, for
20 example, you can only press one pipe at one time and
21 you can only weld it at a certain pace. So the output
22 of these mills is maximized as far as what they're
23 putting out as far as individual pieces of pipe.

24 The mills are fully occupied manufacturing
25 according to what their production schedule is. What

1 you see across the POR, and this is what Mr. Miki
2 referenced in his testimony and I can let him describe
3 it more, is it's the result of a couple of large
4 projects they were manufacturing for where they had a
5 very large OD and a very large wall thickness. That
6 resulted in a tonnage output that increased. That was
7 simply a result of the pipe that was being produced.

8 But as far as returning to that tonnage, it
9 would depend upon what future projects come down the
10 pike, what they get. But certainly their mill has
11 been occupied full time manufacturing pipe, just as
12 we've seen the tonnage change according to the spec
13 that's being produced.

14 COMMISSIONER LANE: I think you said if the
15 project materialized you could return to that level
16 and produce that amount of pipe.

17 MR. MIKI: Commissioner Lane, Heiki Miki,
18 JFE Steel.

19 If we are talking about simply the volume,
20 yes.

21 We have been running our mill at our full
22 capacity and we will continue to run in the same
23 manner. If we could happen to get projects with large
24 OD or thicker wall materials, output products would be
25 larger. Again, it's just a matter of what kind of

1 project we will be getting or the size of the project.

2 COMMISSIONER LANE: Thank you.

3 Let me follow up because I want to talk
4 about the capacity. This can be provided in a post-
5 hearing exhibit.

6 I would like for you to calculate your
7 capacity based upon the rated capacity of your plants
8 operating 24 hours per day, 365 days per year. If in
9 doing that calculation you have to make an assumption
10 regarding wall thickness, then make a reasonable
11 assumption and explain why you used that wall
12 thickness that you chose.

13 After you make that calculation, if you want
14 to provide a lower capacity level based on planned
15 outages for maintenance, please provide a
16 quantification and explanation for planned outages or
17 down times separately from the maximum output
18 calculation.

19 MR. MIKI: Commissioner Lane, yes, we will
20 do that.

21 COMMISSIONER LANE: Thank you.

22 Now I go to the Mexican producers.

23 What are your export markets other than the
24 United States? And could you give me some idea of the
25 volume of exports in your major export markets and the

1 prices in those markets?

2 MR. GUTIERREZ: That information I think can
3 be submitted in a post-hearing briefing if that's okay
4 with you.

5 COMMISSIONER LANE: Yes, that would be fine.
6 Thank you.

7 MR. WINTON: But I would add, and we'll put
8 in the actual numbers --

9 COMMISSIONER LANE: Could you speak into
10 your microphone a little bit? I'm sorry, I'm having a
11 hard time hearing you.

12 MR. WINTON: Sorry. I think I caught,
13 whatever is making you cough is making me unable to
14 speak loudly.

15 The export markets for this product are
16 South America, Central America, but it's a relatively
17 small quantity for each of the producers. It's not,
18 they are really focused on the Mexican market.

19 COMMISSIONER LANE: Have you all received
20 any specific guidance from Pemex regarding any
21 pipeline expansion or replacement plans?

22 MR. BENITEZ: We can provide that
23 information in the post-hearing. We have some
24 information about that.

25 COMMISSIONER LANE: Thank you.

1 Mr. Klett,

2 MR. MORSE: Ms. Lane, if I may, with regard
3 to Mexico, I think a statement was made this morning,
4 there's a little bit of a misunderstanding. Pemex is
5 not the only operator of natural gas pipelines in
6 Mexico. Pemex has a monopoly for drilling for natural
7 gas, but pipelines can be built by third parties, and
8 are built and operated by third parties. TransCanada
9 owns and operates a pipeline on the Gulf Coast of
10 Mexico which it built last year, and in fact a portion
11 of the pipeline that went into that project was
12 exported from the United States to Mexico.

13 Another project exists that connects to a
14 pipeline that TransCanada owns in California that's
15 owned by a company called Sempra built through Baja
16 California which currently transports gas from the
17 United States to loads in Mexico but starting early
18 next year the direction of flow on that pipeline will
19 be reversed and LNG sourced gas coming into a terminal
20 being built on Baja will be transported through that
21 pipeline in Mexico into the North Baja pipeline and
22 imported into California.

23 So Pemex is not the only one who builds and
24 operates pipelines in Mexico. There are third party
25 entities that own and operate them down there as well.

1 MR. DAVID FISHER: If I could add to that,
2 El Paso also has an office in Mexico City and we are
3 involved in pipeline projects in Mexico. In fact in
4 2002 I was asked to source the pipe for, I believe it
5 was 16 or 20 inch project in Mexico for our office
6 there and we bid a mill in Mexico and we also bid our
7 U.S. domestic suppliers. As the bid worked out, the
8 pipe was awarded to a U.S. mill and it was exported to
9 Mexico.

10 MR. BENITEZ: I would like to add, in the
11 last years there has been a very important expansion
12 in construction of electric generation plants in
13 Mexico. We use this gas to operate and subsequently
14 gas lines to transport the gas.

15 In order to increase the investment for
16 electric generation plants the commission, the federal
17 electricity commission, the state-owned electric
18 company has been bidding projects on APC basis
19 including financed schemes. In such a way the
20 government is not in a position to invest its own.
21 One recent example is the Tamasan Charlie [ph] project
22 that was already mentioned and which required about
23 120 kilometers of 36 pipe to transport the gas to feed
24 that plant.

25 COMMISSIONER LANE: Thank you.

1 Mr. Chairman, I will just wait until my next
2 round for my remaining questions.

3 Thank you.

4 CHAIRMAN PEARSON: Commissioner Williamson?

5 COMMISSIONER WILLIAMSON: Thank you, Mr.
6 Chairman.

7 This question is for the Japanese producers.

8 In your brief you indicate you've invested
9 heavily in high grade subject pipe production. I just
10 wondered, when were the investments made and how large
11 is the demand for this high grade pipe versus the
12 general levels?

13 We've heard testimony from the U.S.
14 producers about the investments they've made in recent
15 years, and I was wondering whether the investments of
16 Japan in sort of more specialized high grade
17 production the last couple of years, or was it in an
18 earlier period?

19 MR. YAMAMOTO: Sumitomo, Yamamoto. Your
20 question about our investment in making pipe?

21 COMMISSIONER WILLIAMSON: Yes, particularly
22 in making the more demanding types of pipe.

23 MR. YAMAMOTO: Recently we decided to invest
24 in high grade facility, I'm sorry, facility to make
25 high grade. Especially invest in heat treatment

1 facility on plate mill and investing some in
2 steelmaking plant. That means we don't have intention
3 to enlarge the capacity of piping, making pipe. Just
4 invest in making higher grade pipe.

5 COMMISSIONER WILLIAMSON: I take it these
6 investments in whatever technology equipment you need
7 to make the higher grade --

8 MR. YAMAMOTO: Right.

9 COMMISSIONER WILLIAMSON: Has it been in the
10 last year or two, or earlier this century or --

11 MR. YAMAMOTO: The facilities coming? Yes.
12 Completed in 2010. That is our current decision for
13 investment. 2010.

14 COMMISSIONER WILLIAMSON: Okay.

15 What about the sales to the Middle East? I
16 guess you've had some significant contracts there.
17 Are those coming to an end? Are those expected to
18 last for a number of years?

19 MR. YAMAMOTO: A big demand in Middle East,
20 and we still continue to supply the pipes to the
21 Middle East area.

22 COMMISSIONER WILLIAMSON: Are these for
23 projects that are expected to end in the next year?
24 Or are these projects that will last --

25 MR. YAMAMOTO: Yeah, the project is come

1 after, one project come after one project, or our
2 business is continuing. The current business will
3 continue to next year which we have order.

4 Did that answer?

5 COMMISSIONER WILLIAMSON: Is this demand
6 from one project or are there a series of projects?

7 MR. YAMAMOTO: Several countries and several
8 owners, we have several different users.

9 MR. MIKI: Commissioner Williamson, Heiki
10 Miki, JFE Steel.

11 For Middle East we are not bidding with only
12 one project. Projects coming one after another. We
13 evaluate all the projects available and take the
14 project which is, we believe it's good faith with our
15 sales strategy. There is no particular project that's
16 going to end next year. It will continue on efforts
17 and continue sales to that area.

18 COMMISSIONER WILLIAMSON: Thank you.

19 What's the typical length of these types of
20 projects? Are they one to two years, or more like
21 four or five? Can you characterize them?

22 MR. YAMAMOTO: That is depending on the
23 length of the pipeline. Typically it takes about one
24 or two years.

25 COMMISSIONER WILLIAMSON: Thank you.

1 In your brief you note that the Japanese
2 mills are concentrating on thicker walled pipe, and
3 indicate that the domestic industry is concentrating
4 on thinner wall pipe. In your post-hearing brief I
5 wonder if you can address this contingency in light of
6 the data that's on Table 3-6 of the pre-hearing staff
7 report. That's something that should be done in post-
8 hearing.

9 MR. MIKI: Yes, Commissioner Williamson, we
10 will submit that as a post-hearing brief.

11 COMMISSIONER WILLIAMSON: Thank you.

12 There has been substantial fluctuation in
13 Japanese exports over the period of review. I was
14 wondering what are some of the factors that have
15 contributed to that? We've heard a lot about the
16 Enron affect in the United States. I was wondering
17 whether or not there are developments outside of the
18 U.S. that might, what is the affect of the Japanese
19 exports since they weren't coming to the U.S. in large
20 quantities?

21 MR. YAMAMOTO: The production tonnage is
22 depending on the size mix of producing. The factory
23 is working, full capacity, working hours basis.

24 COMMISSIONER WILLIAMSON: So it's closely
25 linked to this question of the capacity?

1 MR. YAMAMOTO: The sizes vary project to
2 project.

3 MR. MIKI: Commissioner Williamson, as I
4 stated in my testimony, the output production volume
5 is heavily relying on what kind of project we are
6 dealing with. Some projects require us to have large
7 OD with thick wall, some projects require us to make
8 small pipe with thinner gage. It really depends on
9 what kind of projects we are dealing with.

10 But in terms of, as I stated from 2001 to
11 2006, we have been running our mill at its full
12 capacity. So the result in the production volume is a
13 result of the characteristic of the project.

14 COMMISSIONER WILLIAMSON: Have there been
15 any sort of global demand factors in terms of number
16 of projects or size of projects, independent of the
17 product mix in the projects?

18 MR. MIKI: It is really difficult answer to
19 question since there are so many projects in the world
20 and we don't have any certain geographic area we are
21 looking at. We are looking all over the world and try
22 to find what kind of projects are a good fit in terms
23 of our sales strategy. Some projects happen to
24 require large OD, some projects happen to require
25 there can be small OD.

1 COMMISSIONER WILLIAMSON: Thank you.

2 I was wondering for the Mexican suppliers,
3 can they address the question of the length of the
4 typical contracts? Are they usually one to two years?
5 Three to four?

6 MR. WINTON: For the Mexican suppliers in
7 Mexico or for Mexican suppliers in the United States?
8 They really don't have experience in the United
9 States.

10 COMMISSIONER WILLIAMSON: In Mexico or the
11 other export markets, too.

12 MR. BENITEZ: It's difficult to answer the
13 quantity, the magnitude of the projects. It will
14 depend on each project in particular. It can be
15 something from, I don't know, 5,000 tons to 10,000
16 tons, I don't know. It will depend each one, in the
17 separate project.

18 In time period, from two months to four
19 months. That will be more or less the average.

20 COMMISSIONER WILLIAMSON: Thank you.

21 Thank you, Mr. Chairman.

22 CHAIRMAN PEARSON: Commissioner Pinkert?

23 COMMISSIONER PINKERT: I just have a couple
24 of questions for the Japanese producers.

25 First of all, would you say that the pricing

1 in the U.S. market makes it a particularly attractive
2 export market for Japanese producers?

3 MR. YAMAMOTO: Hirofumi Yamamoto, Sumitomo.

4 I understand the demand over LP market USA
5 is mainly spiral mill manufacturer product. As I
6 explain, our product is SAW and the higher grade for
7 freer usage. We have a big demand outside the U.S.
8 and we have a frame agreement, we have a very small
9 capacity, small room for exporting to U.S. If the
10 U.S. have high grade demand we have to consider, but
11 that's my answer.

12 COMMISSIONER PINKERT: Perhaps in post-
13 hearing if you could look at the average unit values
14 reflected on Table 4-15 and comment on that, that
15 would be appreciated.

16 My other question is, I note that the
17 domestic industry argues that a post-revocation
18 increase in imports from Japan would be facilitated by
19 the affiliated importers of the Japanese producers.
20 Do you have any comment on that view?

21 MR. MIKI: Commissioner Pinkert, Heiki Miki,
22 JFE Steel.

23 I believe that they are referring to trading
24 companies as our affiliated company, but the way we
25 sell our product is FOB Japan, since we are utilizing

1 trading company as our supply chain manager.
2 Therefore, there is, I really don't believe that they
3 can just bring our products in the United States
4 because we are determining which country you would
5 like to bring. So there is no way that affiliated
6 company can bring significant tonnage just to United
7 States.

8 MR. HILL: Steven Hill from Hunt & Williams.

9 I'd just like to add one thing and I'd like
10 to draw on what Catherine Paul said earlier, where
11 she said that the Japanese have been turning down
12 requests for sales in Canada. There are Japanese
13 trading companies in Canada as well. They're located
14 up in Edmonton. So I think you could look at that and
15 say that didn't have an affect on sales into Canada.
16 That could be a sign I think of what would happen in
17 the U.S. as well, or the kind of lack of an affect
18 there would be here.

19 COMMISSIONER PINKERT: Thank you.

20 I'd like to thank the entire panel.

21 Thank you, Mr. Chairman.

22 CHAIRMAN PEARSON: A question for the INGAA
23 representative.

24 Are you basically neutral between, let me
25 back up.

1 Is it more important to you that you get
2 access to, get the order revoked on Japan than on
3 Mexico? And I ask this because a number of the
4 statements have had to do with higher technology pipe
5 that's produced in Japan. So is it relatively more
6 important to your business going forward to have
7 access to that product? Or is it equally important to
8 have access to the product from Mexico?

9 MS. PAUL: I would just start by saying that
10 we're most concerned with getting the quantity and
11 quality of pipe when we need it. At this time perhaps
12 the Japanese are perhaps better positioned to produce
13 the quality for some of the projects that we are
14 looking at. To date we have not been able to qualify
15 the Mexican producers to the same standard, at this
16 time. So I would perhaps leave you with that.

17 MR. DAVID FISHER: Since the bulk of our
18 projects in the foreseeable future are going to be 24
19 inch and larger and Mexico only has one mill that can
20 provide that, just for that reason we would feel like
21 there would be, as far as our goal here of having as
22 many sources of pipe open to us as possible, feel like
23 Japan would have more sources that they could supply
24 than Mexico could.

25 MR. GILLESPIE: And adding to David's

1 comments, as I mentioned in my testimony, it's not our
2 expectation that either of these countries are going
3 to provide, you're going to see a tremendous change in
4 the volume of imported material simply because of the
5 spaces that they both target. As David said, in the
6 Mexican mills it's the lower diameter pipe that we're
7 really not looking at in our project book. And again,
8 the thicker wall market that the Japanese pipe mills
9 target is really not part of our mix as well.

10 CHAIRMAN PEARSON: Thank you for those
11 comments.

12 I believe my last question is for the
13 Japanese and Mexican producers.

14 In some investigations that we do,
15 especially in these review investigations, we have
16 industries that come before us and advise that they
17 have put in place accounting systems that allow them
18 to know for any given sale whether it is likely to be
19 determined by the Department of Commerce to have been
20 a dumped sale rather than a fairly priced sale.

21 My question is whether, given that this
22 order has been in effect for a number of years, have
23 any of your firms adopted such accounting systems so
24 that you have close control over the pricing of your
25 sales or at least a close knowledge of whether the

1 pricing of an individual sale is likely to be
2 determined by the Department of Commerce to have been
3 dumped?

4 MR. HUEY: Mr. Chairman, Bob Huey, Hunton &
5 Williams.

6 May we put that in our post-hearing brief
7 since one could regard that as a business secret or
8 business confidential as to whether or not they have
9 systems that would do such? The answer may vary from
10 manufacturer to manufacturer.

11 CHAIRMAN PEARSON: Point well taken. If
12 anyone cares to comment on it further, I'd be happy to
13 hear.

14 It just seems to me if the potential change
15 in the conditions of competition, and if something
16 like this has taken place it might be useful for the
17 Commission to know it.

18 Mr. Winton?

19 MR. WINTON: At the risk of disclosing
20 highly confidential business information, neither of
21 my clients who are here, and I don't believe any of
22 the Mexican producers, have installed such a system.

23 As someone who practices in this area I can
24 say the reason you install such a system is because
25 you're selling subject to an antidumping order, you

1 want to be able to sell, you have to go through the
2 review process and you want to make sure you're not
3 going to get whacked after the fact with some huge
4 amount of duties.

5 Obviously in the case of Mexico that does
6 not describe the business we're doing with this
7 product. None of the companies are exporting, I think
8 it would be a waste of their money to invest in that
9 sort of thing. Although I'd be happy for them to
10 invest it in me, nonetheless.

11 CHAIRMAN PEARSON: Your point is well taken.
12 It does take some time and effort and expense to set
13 such systems up. It's the sort of investment that
14 more likely makes sense if firms are continuing to do
15 business under an order. I agree.

16 I'll look forward to what you have available
17 for the post-hearing.

18 With that, I think I have no further
19 questions.

20 Madame Vice Chairman?

21 VICE CHAIRMAN ARANOFF: Thanks, Mr.
22 Chairman.

23 Given that Japanese producers' business is
24 project based, we have data in the record that
25 indicate what your order backlog has been up through

1 2006, the end of year order backlog, but I don't
2 believe, and I tried to check with staff on this, that
3 we have data that would reflect contractual
4 commitments that you have going forward.

5 So if you are able to provide for us volumes
6 that are committed under contract going forward into
7 the next few years with information on the projects
8 and the customers, that's information that the
9 Commission has found very helpful in other reviews in
10 terms of looking at what volume might actually be
11 available for shipment to the United States.

12 MR. HILL: Steven Hill, Hunton & Williams.

13 We in fact provided that up through June
14 30th of this year. That was a relatively recent
15 submission. We will, in the post-hearing brief,
16 provide the most up to date information so you can
17 take a look at that.

18 VICE CHAIRMAN ARANOFF: That would be
19 helpful. Given the way you've reported your capacity,
20 if there's anything you can do to show us sort of
21 what's left that's not accounted for in the rest of
22 2007, 2008, whatever else considering how far out
23 contracts are going now, that would be really helpful

24 MR. HILL: We'll do that.

25 VICE CHAIRMAN ARANOFF: Thank you very much.

1 I'd ask the Mexican producers to do the same
2 if you're able to.

3 MR. WINTON: We will do the same if we're
4 able to.

5 VICE CHAIRMAN ARANOFF: Thank you.

6 MR. SANTA: Ms. Aranoff, in the last round
7 of questions you had asked me about pipeline capacity
8 related to LNG terminals. Exhibit 6 to the INGAA
9 post-hearing brief, the carry-over from pages 6 to 7,
10 it's a report published by Credit Suisse, there is an
11 estimate there. Their estimate is that almost 30
12 percent of the proposed capacity over the next three
13 years is LNG terminal take-away capacity.

14 VICE CHAIRMAN ARANOFF: Thanks, I appreciate
15 that. I'll take a closer look at that.

16 One last question for the Mexican producers.
17 You argued in your brief that, not to put too fine a
18 point on it, Mexican facilities are old, nobody's
19 investing in them, they're kind of decrepit. Do you
20 think that revocation of this order would provide an
21 incentive for investment in Mexican production
22 facilities? If not, why not?

23 MR. WINTON: First of all, as I said before,
24 the Mexican facilities are old. They're not decrepit.
25 I'm under strict instructions to let you know they are

1 not decrepit.

2 I think the issue for the Mexican producers
3 is, anyone considering investment, is what's the
4 market for their product. If they thought that the
5 U.S. market was going to be a market for their product
6 that they could supply economically and whatever, then
7 I imagine they would consider investments, just like
8 any producer would.

9 But I think you have to look at this in a
10 historical, longer term, which is this is not
11 something that started in 2001 for the Mexicans or
12 started in 2007. As Alfonso said earlier, he's been
13 in this business since 1965. The Mexican producers
14 really have never been a part of the U.S. market at
15 all.

16 You had a situation around the time of the
17 original investigation where there was this Mexican
18 producer, a very aggressive company, that was trying
19 to do this, took a U.S. sale away from the U.S.
20 industry, and sort of prompted this whole thing. That
21 company no longer exists.

22 But the companies you see now are really
23 focused on Mexico. That's what they see as their
24 specialty, that's where they are. They have the
25 capacity, they've had this capacity. The reason we

1 talked about this being old capacity as not to say
2 it's old, it was to say this is the same capacity
3 that's been in place since, the latest one was outed
4 in the early 1980s. If they were going to take this
5 capacity and ship it to the United States, it would
6 have been coming here since the early 1980s and you
7 haven't seen it at any time. The highest level of
8 exports on record I think was 30,000 tons, and the
9 majority of that was from this company PMT.

10 So for the producers who you see, just the
11 United States is not part of their business plan.

12 We often get the situation where producers
13 come in and say we don't care about the U.S. market,
14 and Mr. Schagrin always says, then why are you here
15 and paying a lawyer to represent you?

16 I will make his comment for him and then
17 answer it. Are there going to be opportunities for
18 the Mexican producers to sell some amount of pipe in
19 the United States? Yes, we hope so. We can see
20 situations, we've heard today about the U.S. producers
21 putting people not "on allocation", but stretching out
22 lead times, not being able to supply the market,
23 especially in the spot market, at times not being able
24 to supply people in reasonable periods of time.

25 Mexico is closer to the United States than

1 Japan, for example, or China or other countries, so
2 there may be situations where somebody needs this
3 stuff quickly and we can supply it quickly, and it
4 will be an opportunity to make a good amount of money
5 on a sale.

6 Sure, we want to get those sales, but are we
7 in the business to compete on pipeline projects in the
8 United States? It just has never happened. And in
9 fact you hear about how the Mexicans are going to come
10 into the U.S. and start taking projects away from the
11 U.S. producers, but the testimony you've just heard is
12 that the U.S. producers have been coming into Mexico
13 and taking projects away from the Mexican producers.

14 So I think this notion that somehow Mexico
15 is poised to ramp up as soon as we get rid of this
16 order, like a dike is going to burst, and a flood of
17 exports and we're all going to be investing, there's
18 just no basis for believing that.

19 Ask my clients, because I'm just a lawyer,
20 but I think they would agree with that.

21 MR. BENITEZ: Very completely.

22 VICE CHAIRMAN ARANOFF: Okay. I was going
23 to ask another question but I think I'll just leave it
24 at that and thank all the witnesses for your testimony
25 this afternoon.

1 Thank you, Mr. Chairman.

2 CHAIRMAN PEARSON: Commissioner Okun? No?
3 Commissioner Lane?

4 COMMISSIONER LANE: Mr. Klett, as I promised
5 you about an hour ago, I had some questions for you.

6 As graphically displayed on your chart of
7 non-subject imports in 2001, it looks like non-subject
8 imports captured a major portion of the market that
9 was left void by the reduction in subject imports, yet
10 domestic industry profitability increased from 11.7
11 percent loss to a 3.9 percent profit.

12 Do you believe that one factor that might
13 explain the improvement in the domestic industry was
14 that the unit value of non-subject imports was
15 significantly higher than the unit value of the
16 subject imports that they displaced?

17 MR. KLETT: No, I don't. I don't think you
18 can compare unit value as a reflection of comparative
19 pricing.

20 I think what was happening between 2000 and
21 2001 is that you had a very strong demand in the U.S.
22 market associated with the Gulfstream project, and
23 essentially you had U.S. shipments go up which
24 contributed to increased profitability as well as
25 increases in non-subject imports associated with

1 strong demand in that year.

2 I'm reluctant to make any conclusions based
3 on just gross average unit value comparisons given the
4 heterogeneous nature of this product.

5 COMMISSIONER LANE: Thank you.

6 My final question is, can you provide your
7 strongest arguments why revoking the orders will not
8 result in volume or price affects that will injure the
9 domestic industry?

10 MR. KLETT: That's an open-ended question
11 but I'll just try to keep it fairly brief and hit the
12 high points.

13 One of the things that hasn't been mentioned
14 today with respect to what's going to happen with
15 import volume if the order is revoked is the behavior
16 of the Japanese imports pre-petition.

17 If you look at what happened in the original
18 investigation in the project market, and these are
19 public data in Table 1-16 of your staff report. In
20 1998, Japanese imports into the United States were
21 roughly 88,000 tons; in 1999 they went down to 61,000
22 tons; in 2000 they went down to 41,000 tons; and
23 during 2000 because you have half-year data available,
24 they continued to decline.

25 Essentially what happened was that the, in

1 the project market imports from Japan into the U.S.
2 followed project market demand. It kind of reflects
3 what was testified to earlier, and that is when demand
4 is strong in the United States, although there is a
5 preference for domestic supply or getting LDLP from
6 domestic mills, when demand is strong there will be an
7 increase in imports because domestic mills are at
8 closer to fuller capacity. When demand declines, U.S.
9 mills have the capacity, the pipeline companies can
10 get that LDLP from domestic mills and imports
11 typically decline.

12 You even see that in non-subject import
13 trends, for example in 2003 and 2004.

14 So I think going forward, and by the way,
15 the decline in the imports from Japan during the POI
16 pre-petition was at a time when at least nominally
17 they were reporting more excess capacity than they are
18 now, so generally it was a weaker world market
19 situation as well.

20 I think that tells you a lot about what
21 their behavior will be going forward on the volume
22 side.

23 On the pricing side, you heard this morning
24 I think from one of the witnesses on the domestic
25 side, that if the order is revoked the only way the

1 Japanese can gain market share in the project market
2 is to undersell others competing for the same
3 projects.

4 Again, I suggest that you look at the
5 Japanese behavior in the original investigation. You
6 have actual data on bids to specific projects which I
7 think is more reliable than the quarterly pricing data
8 you collected where you're comparing probably prices
9 to distributors versus prices to projects, and I don't
10 think that's all that meaningful.

11 On the pricing, I think that tells you
12 something as well about their behavior, in addition to
13 what they testified to today about the kinds of
14 projects they're going to be going after and the
15 testimony about their behavior in Canada with respect
16 to bidding on projects.

17 Thank you.

18 MR. WINTON: Commissioner Lane, sorry to
19 interrupt.

20 I just wanted to clarify, was your question
21 why revoking the order will not affect prices and
22 quantities or why revoking the orders in the plural?

23 I'm feeling a little put-upon because they
24 have me at the kiddy table back here, but beyond that,
25 this whole hearing has really been about Japan and I

1 think all the testimony you've heard about the impact
2 effect, what Mr. Klett has just been talking about,
3 what the U.S. producers were talking about, it's all
4 about Japan. I think that speaks volumes about what
5 the impact of Mexico might be if the order were
6 revoked.

7 COMMISSIONER LANE: Did you want me to ask
8 you the question?

9 MR. WINTON: I thought you said revoking the
10 orders in the plural, and I heard an answer that was
11 all about Japan. I hope you revoke the order for
12 Japan, they seem like lovely people.

13 (Laughter).

14 But we're talking about two different orders
15 here. When you say revoke the orders there's a
16 question, what would the affect of revoking Mexico be?
17 You can ask or not, I've already told you.

18 COMMISSIONER LANE: Yes, I feel compelled to
19 be fair and ask you the same question. Even if you
20 are sitting way in the back.

21 MR. WINTON: As I said, I think you have not
22 heard anything today from the domestic industry about
23 how Mexico could have any adverse impact at all. Has
24 had in the past, these producers will have in the
25 future. There's simply no evidence at all. There's

1 never been any, with the exception of a company that's
2 now out of business and has had its equipment shipped
3 to Saudi Arabia.

4 MR. PIERCE: May I answer too, very briefly?

5 COMMISSIONER LANE: Mr. Pierce, yes.

6 MR. PIERCE: Thank you, and I'll be quick.

7 To the extent you ask what's the strongest
8 argument, I do think you need to consider and all the
9 Commissioners need to consider, the strongest argument
10 to a large extent is the testimony of Dave Delie from
11 Berg Steel. He said flat out, demand's going to be
12 strong through 2009. After that, I'm worried. It's
13 in the transcript. He said it repeatedly.

14 If you're going to be looking at a
15 reasonably foreseeable time of two years, that takes
16 you to the middle of 2009. You have it seems to me an
17 admission on the record from the largest domestic
18 producer, or one of the largest domestic producers,
19 that they see no problem with demand for the
20 reasonably foreseeable time.

21 So if this case is going to turn on demand,
22 which is what most of this hearing has been about, I
23 think the case is over. I think we've won. You have
24 both sides saying demand is going to be strong through
25 a reasonably foreseeable time. I think that's a

1 powerful argument and a very strong argument in favor
2 of revocation.

3 COMMISSIONER LANE: Thank you.

4 Thank you, Mr. Chairman.

5 CHAIRMAN PEARSON: Commissioner Williamson?

6 COMMISSIONER WILLIAMSON: Thank you, Mr.
7 Chairman. I have no further questions. Thank the
8 panel for their testimony.

9 CHAIRMAN PEARSON: Are there any further
10 questions from the dais?

11 Do members of the staff have questions for
12 the Respondents' panel?

13 MR. CORKRAN: Douglas Corkran, Office of
14 Investigation. Thank you, Mr. Chairman. Just a few
15 very brief questions.

16 One comment first, which is just to remind
17 all participants today that questionnaire supplements
18 for interim period data, that's January through June
19 2006 and 2007 are due on August 3rd, so I just wanted
20 to remind people about that because for the final
21 staff report there will be data for the first half.
22 It will be compiled and released well prior to post-
23 hearing briefs being due.

24 Second, a very quick question for Mr.
25 Gutierrez or Mr. Benitez, which is, and it may go more

1 to Mr. Benitez because your testimony may have touched
2 on it. But can either of you tell me, if you recall,
3 who won the Florida Gas Phase 4 contract?

4 MR. WINTON: We were discussing this because
5 Alfonso said he thought the order that PMT won in
6 2000, he originally said it was Florida Phase 5, but
7 he couldn't remember and was trying to figure out, he
8 said he knew it was in Florida.

9 MR. CORKRAN: Thank you very much. That's
10 very helpful.

11 The other quick question is again for Mr.
12 Benitez or Mr. Gutierrez, we heard a lot of testimony
13 today about the rapid increase in acceptance of spiral
14 welded pipe. While I know that is not a product that
15 either of your companies produce, it is a product that
16 Tubesa producers. They are an API 5L certified
17 company. Is there the same acceptance of spiral
18 welded pipe in Mexico?

19 MR. WINTON: When we saw the staff report
20 and saw the discussion of Tubesa we actually got in
21 touch with them. I think they would be prepared to
22 answer Any questions you have from them and they might
23 be the beset people to do that. I can pass on their
24 contact information to you if that's the best way to
25 handle that.

1 MR. CORKRAN: Thank you.

2 And thank you, Mr. Chairman. Staff has no
3 further questions.

4 CHAIRMAN PEARSON: Mr. Narkin, Mr. Schagrin?
5 Does the domestic industry have any question for the
6 Respondents?

7 MR. SCHAGRIN: Yes. For the record, this is
8 Roger Schagrin. I just have one quick simple question
9 for the representatives of TransCanada and El Paso.

10 The question is, if the Commission were to
11 sunset these orders and qualified Japanese companies
12 bid on projects and agreed to supply the grade OD and
13 the quantities required in the bid at the lowest price
14 of the bids, would you place orders with the Japanese
15 producers?

16 MR. GILLESPIE: El Paso would evaluate all
17 the factors of that situation. I couldn't say for
18 certain that a price would be a determinant factor in
19 that decision.

20 MS. PAUL: TransCanada would also have to
21 evaluate all the factors including timing and the
22 availability and in addition it is hypothetical to the
23 extent that all of the circumstances would be the
24 same, so we would have to look at all, and as we
25 indicated in our earlier information, we look highly

1 at quality availability specifications and price. We
2 don't always bid these as well.

3 MR. SCHAGRIN: To clarify, so even if all
4 the conditions were met and these fine Japanese
5 producers of high quality material were the lowest
6 bid, TransCanada would still have a lot of questions
7 as to whether to award the contract to the lowest
8 bidder if they were Japanese?

9 MS. PAUL: TransCanada is looking for the
10 best quality, well the acceptable quality in the
11 timeframes we need at the most commercial viable price
12 that we need for the projects.

13 MR. SCHAGRIN: No further questions,
14 Chairman Pearson.

15 MR. MORSE: And if it involves shipping it
16 from Japan and all of the costs associated with
17 shipping it and all of the risks associated with that,
18 still put it at the lowest cost, we'd give it
19 consideration. It's a very hypothetical situation.

20 CHAIRMAN PEARSON: Okay, thank you very much
21 to this panel. It has been a really interesting
22 afternoon. Many of you have traveled long distances
23 to get here. All of you sat through the morning too,
24 so you've been here a full day. I just want to
25 express my appreciation.

1 We will now dismiss this panel and we'll go
2 ahead and get prepared for closing. So please be
3 excused.

4 The time remaining. Those in support of
5 continuation have 19 minutes remaining from the direct
6 questioning, and five minutes for closing for a total
7 of 24. However, Mr. Schagrin, if you are in
8 particular need of four extra minutes, talk to me.

9 MR. SCHAGRIN: (Not on mike).

10 CHAIRMAN PEARSON: Okay. Those in
11 opposition to continuation of the orders have five
12 minutes for closing.

13 Mr. Schagrin, how do you wish to proceed?
14 Do you want to go just from the table?

15 MR. SCHAGRIN: I'll go from right here.

16 CHAIRMAN PEARSON: And do you wish to have
17 separate rebuttal and then closing or do you want to
18 just put it all together?

19 MR. SCHAGRIN: Probably take it separately.
20 That will give me a little time to gather my thoughts
21 for closing. Right now I'm in the mood to rebut.

22 CHAIRMAN PEARSON: Please do.

23 MR. SCHAGRIN: Once again, for the record, I
24 am Roger Schagrin of Schagrin Associates on behalf of
25 five domestic producers and in support of

1 continuation.

2 I know that in a lot of Commission
3 proceedings, as Mr. Winton intimated, Respondents
4 don't want to be accused just because they show up
5 here of evidencing such an interest in the market that
6 they showed up that that's a reason to continue the
7 order. I agree with Mr. Winton, that's not a reason
8 that this Commission should continue orders, and I
9 think both you and I have a great interest in everyone
10 showing up, be they customers or foreign producers,
11 because it helps fill out the record.

12 However I did find the afternoon interplay
13 between the largest, in fact other than distributors
14 one could say the only purchasers of this product in
15 the United States, and for that matter through
16 distributors they are the only purchasers. They are
17 the gas pipeline companies, telling this Commission
18 that they're unable to source what they need both at
19 the present time and what they would say is the
20 immediate future and in what they would categorize, I
21 think their lawyers advise them, in the reasonably
22 foreseeable future. They just can't get it. They say
23 they can't get it domestically. They say they can't
24 get it from foreign producers.

25 Then we have the Japanese and Mexican

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1 panelists saying they have no interest in supplying
2 this market. That's like two ships passing in the
3 night. These are the customers and these are the
4 producers, and the customers say we're dying to buy
5 from anywhere, we can't get enough, and the foreign
6 producers saying we're not interested in selling to
7 you.

8 What got me about the credibility, and I'll
9 get to some of those issues. I know credibility is a
10 big word. I participated in a very big proceeding at
11 this Commission in which the Commission did have a
12 problem with some of the credibility of the witness
13 testimony. I don't think that's really our issue
14 today.

15 When these pipeline companies talked about
16 the bidding process, the bidding process is you have
17 to be qualified, although now maybe you don't have to
18 be qualified if you have the lowest price we'll try to
19 qualify you after we see you have the lowest price.
20 You have to supply the grade. You have to supply the
21 OD. You have to agree to supply the product in the
22 time period in which the pipeline company wants it
23 because they have to line up their schedule. Then
24 they'll take the lowest bid.

25 These purchasers were even unwilling to

1 admit that if the Japanese complied, and we know the
2 Japanese make great quality product, that if the
3 Japanese complied with that as a bidder, well, they'd
4 really have to think about whether they'd want to give
5 it to the Japanese even if they had the lowest price.
6 That's got to make you wonder. Are these people
7 really up here giving you the real story? I mean I
8 wasn't that involved in the corrosion resistant case.
9 I understand the automotive guy said sure, if the
10 people subject to this case give us the lowest prices,
11 we'll buy from them. You still revoked most of those
12 orders.

13 I don't think if customers say we'll buy
14 imported product that that's the only decision for the
15 Commission, that means you continue the reviews. So
16 they ought to just admit it. It really goes to are
17 they really willing to tell you without being coached,
18 this is the way the law is, this is the way to argue
19 the facts, just up front tell the truth, just say it
20 like it is. It's not that big a problem. We get the
21 facts out before this Commission; the lawyers then
22 analyze the facts; the Commission considers the
23 record; and you make a reasoned decision.

24 No one should get the mistaken decision that
25 this case is only about demand. Every case is about

1 supply, demand, how much will imports increase, what
2 will their impact be on the domestic industry, will
3 there be a recurrence of injury? No case is about
4 demand alone. It's always about demand and supply.

5 But let's start with demand before we get to
6 supply. INGAA comes before you with a story that
7 demand is going to surge. Let me say that
8 representing most of the U.S. industry producing these
9 products, my clients love the INGAA members as
10 customers. They want them to build tens of thousands
11 of miles of pipelines in the next few years. We are
12 all for the most rosy scenario possible coming true.
13 Unfortunately, that rose scenario is unlikely to come
14 true. All of this speculation about demand for gas,
15 for pipelines, a lot of it is speculative. But you
16 all have the ability to look backwards a little bit as
17 well.

18 To test that speculation, let's start with
19 the first chart, natural gas consumption. Boy, I know
20 for the past 10 or 15 years, everybody, including
21 INGAA, keeps saying natural gas consumption in this
22 country is going to explode. And we're all for it. I
23 represent the people who make OCTG. I represent the
24 people who make line pipe.

25 What actually happened compared to the

1 forecasts that were made in 2000 were we going to get
2 to 30 billion cubic feet by 2010. What really
3 happened between '04 and '06? Consumption fell in
4 each year. Now, for '07, it's supposed to go up by 20
5 percent. By the time you make your decision, you
6 won't be able to test that.

7 But boy, I really doubt that that's going to
8 happen, and I doubt that all these projections for
9 year after year after year of increased demand,
10 regardless of price, regardless of what happens in the
11 weather, global warming -- I don't even want to get
12 into that issue, but it's a factor -- I mean, most gas
13 goes into warm-air homes. It's so bloody hot up in
14 the northeast in New England these days, I don't know
15 what we're going to use that for. I was in Chicago
16 last winter. It was like springtime. Anyway, I just
17 don't think that's realistic, the forecasts.

18 But now let's talk about demand for
19 pipelines and for pipe. Are the number of miles of
20 pipe actually built a good indicator of demand? Yes,
21 they are. There are some product mix issues, but
22 they're pretty good. So now we have an INGAA
23 forecast. It's in their exhibits. It's in their
24 prehearing brief, and they actually cited to the
25 prehearing staff report, and that's okay. But of

1 course, and we got to this earlier, the prehearing
2 staff report says this is just based on FERC
3 applications, and some have been approved.

4 Now we all know that a lot of FERC
5 applications either don't get approved or they're
6 duplicative. We all know that. Even the INGAA
7 studies say on the optimistic side 70 percent, and yet
8 they use the full amount.

9 But I think Commissioner Pinkert hit it
10 right on the head when he asked the question, I mean,
11 my God, these people are doing \$100 billion a year in
12 sales, \$10 or \$20 billion a year in profits. My
13 clients would like to have a \$100 million profit year.
14 Couldn't they afford with all the lawyers and
15 economists they had to test their theory? That's what
16 real people doing real analysis do.

17 It's not like this was new. This case has
18 been going on for a year. Well, I'm not maybe the
19 brightest banana in the bunch, but I just looked at
20 some numbers myself. I compared the INGAA data which
21 is based on FERC applications for 1998 through 2006
22 and compared it to the information in the staff report
23 on consumption, and you know what? It never matches,
24 not even once.

25 I mean, the trends are different. Between

1 1998 and 2000, demand is supposed to be falling
2 somewhat. In fact, it falls by 40 percent. Between
3 2000 and 2001, it's supposed to go up just a little
4 bit. In fact, it almost doubles. And then in 2002,
5 it's supposed to go up almost twice again. In fact,
6 it went down. It never matches.

7 So, Commissioner Pinkert, when you get your
8 answer, assuming they don't do a lot of hocus-pocus,
9 the answer is going to be that FERC applications and
10 actual demand for line pipe don't match up. And the
11 reason for that is this is a difficult process. They
12 have to make the applications. They've got to get
13 them granted. They've got to get over the
14 environmental hurdles. They've got to get everything
15 squared away.

16 We wish them luck. We hope every time they
17 apply it's granted and they build it. That creates
18 demand. But the fact is it's not there. So you
19 certainly can't make a negative determination.

20 Does Dave Delie say, yes, I think demand is
21 going to be good through 2009? Yes, he testified to
22 it. We all think that. It looks like it's going to
23 fall off the table in 2010, but we're concerned about
24 supply, not just more domestic supply, but the
25 Japanese have the ability to supply huge amounts of

1 product to this market. And how will they supply
2 that? They'll supply it based on price.

3 While I still don't find the Japanese way of
4 coming up with capacity to be credible, if you take
5 their assumption that they always operated for the
6 past six years at full capacity utilization and you
7 look at what was happening to world demand, not only
8 U.S. demand, early on, I think you can reach a
9 reasonable conclusion that these Japanese mills will
10 sell at whatever price it takes to fill up their
11 mills.

12 For some of these years, even though my
13 clients are very active in export markets as well as
14 the domestic market, it was impossible to achieve high
15 capacity utilization, but the Japanese were always
16 able to achieve full capacity utilization. Why is
17 that? Because they're will to sell at any price.
18 They're all integrated facilities. When they are
19 filling up their pipe mills, they're also filling up
20 their plate mills and their steel mills. They have
21 every reason to make sure they run full out.

22 Now they questioned the domestic industry's
23 data on capacity utilization. They gave you an
24 interesting analysis about, oh, if you run this on
25 Gulfstream, it's Berg's own data. Well, Mr. Delie

1 from Berg told me that when they were running
2 Gulfstream for a six-month period, they were making
3 over 125,000 tons a quarter on a mill that's rated
4 400,000 tons a year. So they were exceeding their
5 nameplate capacity because they were able to run 24/7.

6 Now, when Mr. Berg, when the folks from
7 Dura-Bond talk about running two shifts instead of
8 three shifts, these mills have run three shifts
9 before. They ran three shifts galore, Berg did, when
10 they had Gulfstream. They would love to run three
11 shifts again. The demand isn't presently there for
12 that. That's why they're running at two-thirds
13 capacity utilization at the present time and ACIPCO
14 and Stupp are running more like 40 percent given what
15 their run rates are.

16 Let's talk about X80 pipe. Everybody wants
17 X80 pipe. There's nothing wrong with everybody
18 wanting X80 pipe, but I think they try to give you the
19 impression that the domestic industry isn't willing to
20 produce it and isn't able to bid on it. Well, my
21 information is that five out of the seven U.S.
22 producers do make X80 pipe regularly, do bid on it,
23 and in fact, right now that is exactly what Oregon
24 Steel Mills is running. That's what Berg is running.
25 And in fact, Berg has a major project for TransCanada

1 for 30,000 tons of X80 pipe.

2 Well, boy, listening to these TransCanada
3 witnesses, when could they get that 30,000 tons of
4 pipe from Berg? Is that in 2009? Is that in 2010?
5 They've got to reserve all this space years in
6 advance? No. Berg is making that between now and the
7 end of 2007, the same way Berg was able to pick up
8 50,000 tons when another domestic producer was running
9 behind.

10 So we've got plenty of space on these mills
11 to produce more product, and boy, there's going to be
12 a lot more space coming up as all these new mills are
13 built. And most of these new mills, they are already
14 breaking ground. Berg is well ahead with
15 construction. They're going to be up and running in
16 the third quarter of 2008. That's not speculative.

17 You know, we also heard about pricing from
18 the users. You all gave them some very good questions
19 on pricing. And they said of course, oh, we need
20 quality, we need availability. When it comes to the
21 bid, it gets down to pricing. And they say, well,
22 what we're looking for is realistic pricing, i.e.
23 they're looking for the lowest price they can get.
24 There's nothing wrong with that. They might as well
25 go ahead and admit it instead of trying to hide it

1 behind a lot of boxes.

2 And they say, but, you know, when we look at
3 foreign pricing, oh, there's all that freight. Well,
4 we know there's freight involved in foreign. There's
5 a lot more freight for them than there is for us, but
6 that doesn't keep them from buying foreign. It didn't
7 keep 800,000 tons of nonsubject product out of the
8 U.S. market because they look at everything as what's
9 the price when it's delivered to where I want it at
10 the pipeline.

11 And if the Japanese are going to dump, if
12 the Mexicans are going to dump, if they're going to
13 deliver it to the pipeline at a lower price than the
14 U.S. producers, it's going to be there and it's going
15 to be injurious and they might as well just admit that
16 that's the way they want to buy.

17 As to haggling on price, we'll get you more
18 information on that in our posthearing brief. In
19 fact, with one of our clients, there's haggling going
20 on right now with TransCanada even after a bid was
21 made to try to get both the price lowered and to
22 change the conditions of the contract.

23 And that's okay. I don't mind them doing
24 that. That's their business, but they might as well
25 tell you that they will go back and try to achieve

1 lower prices. That's their job. Our guys' job is to
2 try to get a higher price. Theirs is to get a lower
3 price. Just admit it. Get the facts on the table.

4 Now a lot of the TransCanada discussion,
5 they're obviously doing a lot of work in Canada.
6 That's fine. But this Commission really can't find
7 that there's going to be injury to somebody not
8 getting product in Canada because of a U.S. order.
9 But it was kind of interesting in terms of their
10 projections on demand.

11 I heard them say over the next five years,
12 they plan on buying 1.5 million tons, and they've even
13 got 5 million tons on the drawing board. Well, it
14 sounds to me they've got about three times as much on
15 the drawing board as they do plans for actual
16 purchases, and that sounds just like the norm in this
17 industry. People put a lot on the drawing board, and
18 in the end, they probably build about one-third of
19 what's on the drawing board.

20 As to their major Keystone project, that's a
21 big project, 700,000 tons. They talked about it.
22 It's all being made for them. To our knowledge, no
23 pipeline company can come up and argue to this
24 Commission that they're having delays building
25 pipelines because they're not getting the pipe they

1 need delivered to them on time with the people they
2 contracted for it with. They have delays because of
3 environmental permitting. They may have delays
4 because of weather. They're not getting delayed
5 because of an inability to get pipe, and we don't
6 think they will in the future.

7 As to the Jacobs report and the Credit
8 Suisse report, just a couple of comments on those.
9 You know, they talked about, oh, Jacobs is off. Their
10 capacity is higher than the staff report. Well, we
11 know, and it's confidential, that there's a reason for
12 that. But the other thing about Jacobs, in early 2006
13 when they were doing their analysis of available
14 capacity over the long run, they didn't take into
15 account any of the new mills, and of course we know
16 from today's hearing that there are a lot of new mills
17 being built.

18 As to the Credit Suisse report, I told you
19 we'll go through those various projects that are
20 listed, but one of the things that's already got to
21 make you question how good it is is that INGAA said 30
22 percent of all the new pipeline demand is going to
23 come from linkups to LNG terminals. We're going to
24 give you more about LNG terminals in our posthearing
25 brief, but you all already read the papers. You know

1 there is more NIMBY not in my backyard with LNG
2 terminals.

3 What is happening in reality in the
4 marketplace is that current LNG terminals are being
5 expanded. In fact, one of our clients got the project
6 for that 180 miles for Cypress, a domestic producer,
7 to hook more capacity going from an expansion of that
8 LNG terminal in Louisiana to other pipelines. That's
9 a good thing. But new LNG terminals, getting to this,
10 I'll buy and I appreciate it's public service, but if
11 we get to 2.4 million on LNG terminals by 2012, I'm
12 buying everybody, I'm buying all the drinks. I mean,
13 it's just pie in the sky. It's not going to happen.

14 So I'll have a couple other remarks in
15 closing. I want to leave a little time to get those
16 four minutes on July 31, but that's our rebuttal.
17 Thank you very much.

18 CHAIRMAN PEARSON: Keep in mind the ethics
19 requirements and don't buy us more than we can accept,
20 okay?

21 MR. SCHAGRIN: No problem.

22 (Laughter.)

23 CHAIRMAN PEARSON: Okay. You're prepared to
24 go to closing? That's kind of what I thought. Please
25 proceed.

1 MR. SCHAGRIN: Thank you. For the record,
2 Roger Schagrin with Petitioners' closing arguments for
3 the domestic industry. This industry has certainly
4 suffered and underperformed during this period of
5 review. This has not been self-induced injury, but in
6 fact it was caused by the sins of their customers,
7 which depressed demand.

8 Now this industry is returning to normal
9 demand levels, and the industry is beginning to
10 recover. Not only are the present producers in the
11 industry beginning to recover, but there's going to be
12 a lot of new investment in this industry over I guess
13 the next two years. And that's a good thing. That's
14 a good thing. Whether people are building new steel
15 mills or people are building new pipe mills,
16 investment in the United States that creates high-
17 paying jobs, if it is in part a result of the
18 enforcement of the unfair trade laws, it is a
19 wonderful benefit of that enforcement.

20 If demand for large diameter line pipe was
21 really significantly outstripping supply, then why
22 were the profit margins for the domestic industry only
23 10 percent in 2006? Why aren't they 25 or 30 percent
24 like the plate industry or the OCTG industry, which
25 have been experiencing very, very high demand,

1 incredible in the period of reviews increases in
2 demand. The reason is simple. It goes back to what
3 Dr. Blecker talked about.

4 It's because of the supply-demand
5 conditions. It's because there's been additional
6 available domestic capacity, and there's been large
7 nonsubject imports. That has been keeping some
8 downward pressure on prices even during a period of
9 increasing demand.

10 To add to this marketplace large quantities
11 of subject imports will create much more downward
12 pressure on prices. As I said, like all cases, this
13 is about supply and demand.

14 And if the Japanese can operate these
15 gigantic mills they have by taking big projects,
16 running the same product for a long period of time
17 without having to have changeovers on their mills and
18 be at X80 pipe, which they said they want to make the
19 high-grade pipe, and you heard the users say they want
20 to buy the high-grade pipe, so there is a natural
21 affinity which I think is why they were both here
22 today between the INGAA buyers and the Japanese
23 suppliers.

24 Now the question was asked earlier and we
25 will address it in our posthearing brief as well, but

1 I think it would be appropriate in this case to
2 lengthen the reasonably foreseeable timeframe for
3 three reasons beyond the two years.

4 First, the customers themselves have
5 testified this is a very long lead-time business. It
6 takes them years to plan these projects and then to
7 implement them. Secondly, you have new investment
8 coming on in the first year or two of that reasonably
9 foreseeable timeframe, and they're going to need to
10 get returns on their investment. And lastly, INGAA
11 itself projects just a tremendous drop in demand in
12 2010, so any benefits this industry receives of
13 increased demand over the next year or two are going
14 to dissipate three years out.

15 During the period of investigation when
16 demand for project pipe in the United States was
17 falling, the Japanese shifted to the distributor
18 market. Now that demand from projects is increasing
19 as compared to distributors, the Japanese will
20 certainly shift to that market.

21 As we say, I think it's pretty abundantly
22 clear from the record in both the period of
23 investigation and your period of review the Japanese
24 modus operandi. These are huge companies, unlike my
25 clients. They are integrated producers. They want to

1 fill up their pipe mills as much as possible so they
2 can fill up their steel plate and their sheet mills.
3 That's a condition of competition you should take into
4 account.

5 If you revoke these orders, we're going to
6 get large increases in imports. Most importantly,
7 we're going to get huge increases in bidding on
8 projects, which is going to force prices down and it's
9 going to result in a recurrence of injury. Thank you
10 very much.

11 CHAIRMAN PEARSON: Thank you, Mr. Schagrín.

12 Mr. Huey?

13 MR. HUEY: Thank you very much, Mr.
14 Commissioner and the Commissioners. In listening to
15 Mr. Schagrín's final points and then sum-up, I thought
16 there were a couple of things that would be very
17 appropriate to mention. First, the --

18 CHAIRMAN PEARSON: Mr. Huey, please bring
19 your mic a little closer. Thanks.

20 MR. HUEY: I'm sorry. I apologize. I think
21 first, in listening to his ad hominem attack on the
22 panel from INGAA I think was totally inappropriate.
23 These people were asked direct questions. They gave
24 you direct answers. I do not think that there is any
25 basis upon which to challenge their credibility.

1 There are obviously some elements of disagreement as
2 to what the future portends, but it is not one of
3 credibility.

4 Second, I think I would like to address the
5 complete lack of discussion of the current performance
6 of the industry that he represents. There is no
7 question that it has improved dramatically. All the
8 data indicate profits are going up. Profits are up
9 per ton. Prices are better now, rates of return, than
10 they have been in almost a decade. I think that is
11 very telling as to what is happening.

12 I think he also has referred to the plate in
13 the Oil Country Tubular Goods cases, and he said, ah,
14 but wait, wait, wait. We're not doing as well as they
15 are. I would suggest that the circumstances indicate
16 that there may be a lag in the improvement of the
17 section of the steel industry that serves the energy
18 industry and that this lag may be a result of first
19 the energy has to be found. As Mr. Santa said, he
20 referred to it as a supply. I think that's an
21 accurate way of describing it, but I also think it's
22 demand, because it's ultimately energy demand.

23 So what you may have very well is a
24 situation in which the improvement in this industry
25 lags the improvement in the other two industries that

1 you've looked at that are major suppliers, as you have
2 recognized, to the energy industry.

3 With respect to the reasonably foreseeable
4 demand, I think that there are two or three very
5 important aspects and that it's important that we
6 understand that so much of the discussion with respect
7 to this industry has been based upon tonnage.

8 I think it is very accurate to say that it
9 is purchased on the basis of tonnage, but a pipeline
10 is essentially a transportation company. It is a
11 transportation company whose basic asset, the
12 pipeline, is static. They can't move it. That's why
13 changes in the location of the demand and supply are
14 so important to the construction of new pipelines.

15 I think that the Commission should
16 understand that in our discussions of capacity
17 utilization, the basic point that we were trying to
18 make everyone understand is that a pipeline company
19 covers a distance. It doesn't cover weight. Weight
20 is solely a function of the character of the pipe that
21 is needed to cover the distance, whether it's by 40-
22 foot lengths or 80-foot lengths.

23 I think it's important to understand that
24 certainly with respect to longitudinal-weld pipe, that
25 is even produced on a piece of machinery that is a

1 piece rate piece of machinery. You put the product
2 in, you process it. There are major distinctions in
3 the weight of that depending upon as we demonstrated
4 the wall thickness and outer diameter, but it still
5 only covers 40 feet of distance that the pipeline has
6 to cover to meet its objectives.

7 I think it's important also to understand
8 that we're not the only people who have placed heavy
9 importance on distance. The Berg/Europipe exhibit
10 that was used to demonstrate the change in weight
11 based upon thickness, you know how they described the
12 project? Berg: Maximum production, miles per week.
13 Moheim, that's the parent, maximum production, miles
14 per week. Dunkirk, the other affiliate, miles per
15 week. Total miles per week. When they described
16 their major Gulfstream project, they described it in
17 miles per week, not tons.

18 That's why we think it's so very important
19 that the Commission look at this issue as to the piece
20 rate, because I think the piece rate answers the
21 conundrum. The conundrum is you have a report based
22 on tons that says we're 42 percent capacity. You have
23 other economic data they can raise prices. Even
24 though imports are up, they can raise prices. Even
25 though plate prices are up, they can raise them more.

1 I'm sorry. I see my time is up, but I
2 suggest to you that circling this is because they
3 cannot make more pipe, but they are making lighter
4 pipe. Thank you very much.

5 CHAIRMAN PEARSON: Thank you, Mr. Huey.

6 Mr. Secretary, we're prepared to offer
7 closing, are we not?

8 MR. BISHOP: Yes, Mr. Chairman.

9 CHAIRMAN PEARSON: Okay. In accordance with
10 Title VII of the Tariff Act of 1930, posthearing
11 briefs, statements responsive to questions and
12 requests of the Commission and corrections to the
13 transcript must be filed by August 21, 2007, closing
14 of the record and final release of data to parties,
15 September 24, and final comments on September 26.

16 This hearing is adjourned.

17 (Whereupon, at 6:28 p.m., the hearing in the
18 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Welded Large Diameter Line Pipe
from Japan and Mexico

INVESTIGATION NOS.: 731-TA-919 and 920 (Review)

HEARING DATE: July 25, 2007

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: July 25, 2007

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter