UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
CIRCULAR WELDED CARBON-	)	701-TA-447 and 731-TA-1116
QUALITY STEEL PIPE FROM	)	(Preliminary)
CHINA	)	

Pages: 1 through 186

Place: Washington, D.C.

Date: June 28, 2007

HERITAGE REPORTING CORPORATION
Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
(202) 628-4888

THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
CIRCULAR WELDED CARBON-	)	701-TA-447 and 731-TA-1116
QUALITY STEEL PIPE FROM	)	(Preliminary)
CHINA	)	

Thursday,
June 28, 2007

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

The preliminary conference commenced, pursuant to Notice, at 9:33 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR
CYNTHIA TRAINOR, INVESTIGATOR
CHARLES ST. CHARLES, ATTORNEY/ADVISOR
GERRY BENEDICK, ECONOMIST
JUSTIN JEE, AUDITOR
NORMAN VAN TOAI, COMMODITY INDUSTRY ANALYST

APPEARANCES: (Cont'd.)

In Support of the Imposition of Countervailing and Antidumping Duties:

On behalf of the Ad Hoc Coalition for Fair Pipe Imports From China and the United Steelworkers:

ARMAND LAUZON, Co-Chair, Ad Hoc Coalition for Fair Pipe Imports From China; Chief Executive Officer, John Maneely Company
MARK MAGNO, Vice President, Sales, Wheatland Tube Company and Sharon Tube Company
RICK FILETTI, Co-Chair, Ad Hoc Coalition for Fair Pipe Imports From China; President, Allied Tube & Conduit
SCOTT BARNES, Vice President, Commercial, IPSCO Tubulars, Inc.
HOLLY HART, Legislative Director, United Steelworkers
BOB BUSSIERE, General Manager, Sprinkler Sales & Services, Allied Tube & Conduit

JOSEPH W. DORN, Esquire
GILBERT B. KAPLAN, Esquire
King & Spalding, LLP
Washington, D.C.

ROGER B. SCHAGRIN, Esquire
Schagrin Associates
Washington, D.C.

APPEARANCES: (Cont'd.)

In Opposition to the Imposition of Antidumping Duties:

On behalf of Weifang East Steel Pipe Co., Ltd.; Shanghai Minminerals and Metals I&E Corp.; Huludao Steel Pipe Industrial Co., Ltd.; Tianjin Shuangjie Steel Pipe Co., Ltd.; Zhejiang Kingland Pipe and Technology Co., Ltd.; Tai Feng Qiao Metal Products Co., Ltd.; Xuzhou Guanghuan Steel Tube Co., Ltd.; Guangdong Walsall Street Industrial Co., Ltd.; Tianjin Machinery and Electronics Trading Group Co., Ltd.; Tianjin Baolai International Trade Co., Ltd.; Jiangsu Guoqiang Galvanized Industrial Co., Ltd.; Pangang Group Beihai Steel Pipe Corp.; Shanghai Alison Steel Pipe Corp.; Shandong Fubo Group; and Shanghai Sinopec Tianbao Steel Pipe Co., Ltd..:

JAMES P. DURLING, Esquire
DANIEL L. PORTER, Esquire
MATTHEW P. McCULLOUGH, Esquire
Vinson & Elkins, LLP
Washington, D.C.

On behalf of Western International Forest Products:

DOUG RUDOLPH, Senior Steel Buyer/Trader, Western International Forest Products
SCOTT SCHMID, Steel Division Manager, Western International Forest Products

LAURA FRAEDRICH, Esquire
Kirkland & Ellis, LLP
Washington, D.C.

I N D E X

I N D E X

P R O C E E D I N G S

(9:33 a.m.)

MR. CARPENTER: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of countervailing duty and antidumping Investigation Nos. 701-TA-447 and 731-TA-1116 concerning imports of certain Circular Welded Carbon-Quality Steel Pipe From China.

My name is Robert Carpenter. I am the Commission's Director of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my far right, Douglas Corkran, the supervisory investigator; Cynthia Trainor, the investigator; on my left, Charles St. Charles, the attorney/advisor; Gerry Benedick, the economist; Justin Jee, the auditor; and Norman Van Toai, the industry analyst.

I understand that parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones. We also ask that you state your name and affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. CARPENTER: If not, welcome, Mr. Dorn. Please proceed with your opening statement.

MR. DORN: Good morning. Joe Dorn with King & Spalding.

This case is about the damaging impact of unfairly traded imports in the U.S. circular welded pipe industry. The Chinese Government heavily subsidizes both the production and the export of pipe to the United States. The Chinese producers price their pipe with no regard to market economy cost for steel and zinc. The petition provide evidence of dumping margins in excess of 70 percent.

The Chinese exporters and U.S. importers have used the cheap prices resulting from these unfair trade practices to undersell U.S. pipe by wide margins. Because domestic and Chinese pipe are made to the same ASTM specifications, the underselling allows the Chinese to grab market share for this commodity product.

Applying the statutory criteria of volume of imports, price underselling and adverse impact, it is clear that this industry is materially injured. First, the volume of imports. In October 2005, the

Commission made an affirmative determination in its Section 421 investigation that circular welded pipe from China was being imported in such increased quantities as to cause or threaten to cause market disruption to the domestic industry.

The last full calendar year in that investigation, 2004, is the base year in this preliminary investigation. During the Section 421 case, representatives of the Chinese producers certified to this Commission the accuracy of their projection that Chinese shipments to the United States would go down from 2004 to 2005 and again from 2005 to 2006.

That projection of declining shipments shown in the bar graph was grossly false. As shown in the next bar graph, instead of falling 18 percent as projected imports jumped by 143 percent from 2004 to 2006. China's share of imports from all countries increased from 29 percent in 2004 to over 63 percent in the first quarter of 2007.

Having already found that imports of 267,000 tons in 2004 were enough to cause market disruption, the Commission must find that imports of 650,000 tons in 2006 are significant within the meaning of the antidumping and countervailing duty statute.

Second, price underselling. The average unit value of imports from China is well below that of nonsubject imports. The fact that Chinese prices are lower than domestic prices is acknowledged time and again in the industry's trade press. The Commission found underselling in the Section 421 case, and we are confident that it will do so again in this investigation.

In addition, the Commission will have ample evidence of sales lost to Chinese pipe due to price underselling. In this industry it's difficult to pinpoint lost sales on a transaction-by-transaction basis that the Commission prefers. Even so, we have good examples in the record. In any event, lost market share is the best evidence of lost sales.

Third, adverse impact. Our witnesses will explain the injury they have suffered from dumped and subsidized imports from China. The years 2004 to 2006 should have been among the best in the history of this industry.

Demand for circular welded pipe is largely demand derived from demand for nonresidential construction. Nonresidential construction activity has been robust and increasing since 2004, but rather than increasing capacity production and employment in tandem with increasing demand, U.S. producers have been forced to disinvest in production assets, reduce output and lay off hundreds of employees.

As the imports from China have accelerated, U.S. producers have found it increasingly difficult to raise prices to offset their increasing cost of steel, zinc and energy. The industry today faces a critical tipping point. Profits fell in the first quarter of this year, and the outlook for 2007 is more of the same. The industry needs an immediate end to the dumping and subsidies to avoid further plant closings, layoffs and failed investments.

Given the Commission's finding of market disruption based on calendar year 2004 data and given what has happened since 2004, this is not a threat case. It is a material injury case. We request the Commission to so find in its preliminary determination.

In any event, the threat of continuing injury is real and imminent. The rapidly increasing imports, large margins of underselling, enormous unused pipe capacity in China, U.S. antidumping duties on hot-rolled steel and the Chinese Government's subsidization of the Chinese producers and their exports to the United States virtually ensure that dumped and subsidized imports will grab larger and larger shares of the U.S. market.

We are here to urge you to not let that happen. Thank you. We appreciate the time the staff is putting in this case, and we look forward to working with you. Thank you.

MR. CARPENTER: Thank you, Mr. Dorn. If you could provide a copy of your slides to the court reporter, we'll include those in the transcript as Petitioner's Exhibit 1.

MR. DORN: Thank you, Mr. Carpenter.

MR. CARPENTER: Mr. Durling?

MR. DURLING: Good morning. My name is James Durling with the law firm Vinson & Elkins appearing today on behalf of the Chinese producers and exporters of standard pipe.

Since you will be hearing a lot from us later today, I will make these opening comments very brief. As you listen to the presentations by the domestic industry this morning, I urge you to keep in mind a few basic questions. These questions go to the heart of whether this domestic industry is entitled to any relief under the statute.

These cases are not just about increasing imports, but fortunately the Commission has a lot of experience with this industry and has produced numerous reports that help put the present case into sharp historical context.

First, how can an industry earning record profits be injured? This industry has been earning an average of over $80 a ton of operating profit, which is more than twice -- twice -- the historical average for this industry. Ask yourselves how can record profits constitute injury?

Second, how can an industry charging record prices be injured? Pipe prices shot up in 2004 and have remained at historically high levels. The only modest declines in pipe prices over the period occurred when hot-rolled prices, a key cost element, also dropped.

The average markup of pipe prices over hot-rolled costs has grown over the period by almost $100 a ton. Ask yourselves how can record prices, how can record markups over basic cost elements, constitute injury?

Third, how can declining imports from China threaten any problems? During the three full-year period, as the slide you just saw showed, imports from China were increasing, but during this period the domestic injury prices and profits grew. At the end of the period, prices and profits still remained well above historical levels with hot-rolled steel prices declining and with the gap of pipe prices over input costs remaining quite high.

So with imports from China down in the fourth quarter of 2006 and down again in the first quarter of 2007 on a quarter-by-quarter comparison, how can they be the source of the problems?

Finally, how can imports from China pose any threat when they face an imminent change in the Chinese Government VAT policy? Effective July 1, exporters from China will bear effectively a 13 percent increase in their cost on exports. This dramatic change will have a decrease on the Chinese incentive to export pipe and tube.

You may find the domestic industry may try to avoid these issues this morning, but these inconvenient facts will remain at the center of this case, and we will come back to discuss them extensively later today. Thank you.

MR. CARPENTER: Thank you, Mr. Durling.

Mr. Dorn, you can please bring up your full panel at this time. Thank you.

(Pause.)

MR. KAPLAN: Good morning, ladies and

gentlemen, and thank you for your time here today. My name is Gilbert Kaplan from King & Spalding representing the Petitioners. I'd like to thank you for your hard work, and I know how hard it is to put a case -- any case, but a case of this magnitude -- together in such a short timeframe.

The case before the Commission is a very important one: The first steel case covering subsidies to Chinese steel producers. The direction taken in this investigation is therefore critical not only to those remaining pipe and tube producers in the United States, but to many U.S. companies and workers who make other types of steel.

The Chinese steel industry is the creation of the government of China. For the last 40 years, the government has issued detailed five-year plans and other policy proclamations laying out the game plan for development of China's steel sector.

By committing the financial resources necessary to bring these plans to fruition, the Chinese Government created the behemoth that is the Chinese steel sector today.

Beginning in the 1950s, Chairman Mao initiated the great leap forward aimed at jumpstarting China's economic development and famously proclaimed that China's steel production would double in the first year and overtake the production in Great Britain within 15 years.

By the 1990s, China had not only surpassed Britain's steel production; it had tripled it. By 1996, China became the world's largest steel producer, and today China's steel production has surpassed the production of the United States, Europe and Japan combined.

The Chinese Government program for developing its steel sector has most recently been set forth in a document called 2005 Iron and Steel Policy, which is Exhibit 61 to our petition. This policy mandates continued government support for the steel industry in order to: 1) Increase the international competitiveness of Chinese steel producers; 2) Discourage low tech production techniques; and 3) Promote domestically produced steel products to substitute for imported steel.

By now much of China's steel production is exported. China became a net steel exporter in 2005. The following year steel exports doubled again, making China's exports alone equal to roughly half of all the steel produced in the United States.

The increase in pipe and tube exports to the

United States has been -- I'll tell you in a second -- particularly significant with subject Chinese exports increasing by 143 percent between 2004 and 2006, outpacing exports of other steel products.

The impact of China's excess production and consequent flood of exports have been acute as others here will describe in greater detail. Between 2000 and 2005, China's capacity to produce welded pipe increased by 52 percent. Between 2005 and 2006 it increased at least an additional 15 percent.

The simple fact is the Chinese Government has targeted pipe and tube as the export of choice in the steel sector. The export subsidies, as well as the domestic subsidies that have accomplished this goal include: 1) Value added tax rebates not related to the actual level of tax and which are changed regularly to favor one industry over another; 2) Income tax exemptions for export-oriented companies;

3) Exemptions from paying worker benefits if a company is export-oriented; 4) Billions of dollars of intervention in the currency markets each month to perpetually preserve an undervalued yuan, which encourages underselling and greatly increased exports.

It's also important to look to the subsidies to the hot-rolled sheet sector of the Chinese industry because these are critical in the pipe and tube industry as well. They result in very low hot-rolled sheet prices to the pipe producers.

Hot-rolled sheet is approximately 80 percent of the cost of pipe, and all of the hot-rolled sheet producers in China are government owned. Other input subsidies provided by the government include energy subsidies, water subsidies and zinc subsidies.

Next, government policy loans to pipe producers, tax breaks to pipe producers who buy new equipment or who invest in new technology and grants to cover the cost of financing renovation projects.

As a further way to specifically target the export of pipe from China, China has imposed an export licensing system in which a license provided by the government is required to export hot-rolled sheet. No such license is required to export pipe. Dumping too is a critical problem, and we cite margins in excess of 70 percent in the petition.

Without the unfair trade practices at issue in this case, we would not see the massive increases in exports from China. These are government-financed initiatives and unfair actions by individual producers.

It is critical that the International Trade

Commission make a preliminary finding of injury and that this case go forward. Thank you very much.

MR. LAUZON: Good morning, ladies and gentlemen. Thank you for the efforts on behalf of the U.S. circular welded pipe industry. This is a critical case for us. We are at a critical juncture, and we respectfully ask for your assistance at this time.

My name is Armand Lauzon. I am the co-chair of an ad hoc committee which filed these antidumping and countervailing duty cases. I am also the CEO of John Maneely Company, which is the parent of Wheatland, Atlas and Sharon Tube.

We have operations throughout the United States, including Pennsylvania, Ohio, Illinois, Arkansas and Texas. We are now the leading U.S. producer of circular welded pipe or CWP, which is the focus of this investigation.

Every U.S. steel producer is threatened by a heavily subsidized Chinese steel industry. For CWP, we are well beyond the threat. We are being injured as we speak. In fact, the injury has been with us for quite a while, as you know from the industry's prior trade cases against China.

Our industry cannot afford another loss.

Imports from China continue to surge. The only thing that can turn things around is to stop the unfair trade from China. Both the dumping and the subsidies must stop.

Considering the strong demand the CWP market has displayed over the past few years, this industry should be growing. Instead, the CWP industry has been shuttering capacity and losing business opportunities to unfairly priced imports that always undersell domestic product.

We felt consolidation was the only way for the industry to remain competitive in two respects: First, in terms of dealing with unfair foreign competition, and, second, in dealing with a more consolidated hot-rolled steel industry which supplies one of our main inputs.

Unfortunately, however, even a consolidated and more efficient U.S. pipe and tube industry cannot compete with the Chinese Government. Imports of CWP from China have exploded, from 10,000 tons in 2002 to 650,000 tons in 2006. This is a 6,400 percent increase in just four years.

Much of this increase occurred after the Chinese producers said to this Commission in certified filings in the 421 proceeding that exports of pipe to the United States would not increase. The ITC cannot ignore this misrepresentation.

Not only do the exports of pipe from China not diminish, but the government of China made a very specific effort to increase exports of pipe to the United States. As Mr. Kaplan noted, a whole host of subsidies were put into place.

Among other things, the government of China eliminated or lowered the VAT rebate on a large range of steel products, but they did not eliminate it on pipe. The effect of that is to drive steelmaking capacity and export resources directly into the pipe sector.

Second, the government of China imposed an export tax on a wide range of steel products. It specifically excluded the coverage of this export tax on pipe products. This has a direct effect on siphoning exports into the pipe sector of the industry, directly hurting our company and the members of this coalition.

Pipe represents 10 percent of the U.S. steel consumption, but in 2006 imports from China represented 42 percent of the steel imports from China or 2.2 out of 5.3 million tons. The Chinese targeted pipe because it's value-added, it incorporates jobs in the iron ore, steelmaking, flat-rolled products and pipe.

We filed the 421 after imports surged from 14,000 tons to 274,000 tons. After the loss of the 421, imports skyrocketed to 650,000 tons in 2006. If anything, relief in this industry is more necessary now.

The loss of the 421 case and the resulting import surge forced John Maneely to close a plant in February of 2006 for the first time in its 125 year history. Just over 400 workers lost their jobs. I'm sad to say that the plant was literally bulldozed this past May. The plant cannot reopen.

We announced another 85 employees laid off in February of 2007. Other plants, other communities and many more jobs are at risk. We are world class competitors, but we can only compete when all the trade partners comply with the rules and when foreign governments remove themselves from directing industrial policy. Thank you.

MR. MAGNO: Good morning. I am Mark Magno, vice president of sales for Wheatland Tube and Sharon Tube Company. I have been with Wheatland for 24 years. Wheatland and its sister companies, Sharon Tube and Atlas Tube, produce the full range of circular welded pipe that is subject to this investigation.

Back in 2002 I testified before the Commission with regard to Circular Welded Pipe From China. We were already seeing the impact of imports from China back in 2001 when we filed that petition.

China exported about 150,000 tons of standard pipe to the United States in 2000. Imports dropped in 2001 after we filed our petition and in 2002 after the President imposed Section 201 relief. With the termination of Section 201 relief at the end of 2003, however, imports from China resumed their surge.

We filed a 421 petition in 2005. Imports from China had increased to 268,000 tons in 2004, and they increased from 88,000 tons in the first half of 2004 to 185,000 tons in the first half of 2005. I sat in this room and heard representatives of the Chinese pipe industry tell the Commission that imports in 2005 would be only 239,000 tons, less than they were in 2004. When the final numbers for 2005 came in, however, imports from China exceeded 372,000 tons or about 56 percent greater than promised.

We thought the Chinese imports of 372,000 tons in 2005 were bad, but we had seen nothing yet.

The Chinese industry, to play down their threat to the U.S. industry, told the Commission in their prehearing brief in the Section 421 investigation that imports from China would drop to only 204,000 tons in 2006.

Instead, we saw 650,000 tons of imports from China last year, over three times higher than what the Chinese told you they would be. Imports continue to increase in 2007. There is every reason to believe that this trend will continue unless the unfair pricing is offset with duties.

What is the impact of this enormous surge of imports from China? Let me give you Wheatland and Sharon's perspective. I visit customers all around the country, and they tell me their business is good, as good as it's ever been. Demand for pipe remains very strong for nonresidential construction, sprinkler, fence tubing, gas and water lines.

Given the market, our sales volume should have been increasing every year. Instead it went down every year. We are losing market share to imports from China. As a result, instead of increasing capacity, production and employment in line with increasing demand, we have suffered decreasing capacity, production and employment.

When I was here in 2002, I told the

Commission that Wheatland had just purchased the assets of Sawhill Tubular Division from AK Steel. When I was here for the 421 investigation, our CEO told the Commission that Wheatland invested $25 million to upgrade Sawhill's facilities.

He told the Commission that if we did not get relief through the 421 process Wheatland would have to shut down that mill. Well, we did not get relief, and we did shut down the Sawhill mill last year. The site was bulldozed, and that capacity is gone forever.

There were just over 400 workers at that plant. We were able to move some of our workers to our Wheatland Tube and Sharon Tube facilities. Due to the decreasing sales volumes, however, we have been forced to lay off workers in these facilities as well.

Overall, Wheatland is down from over 900 workers in 2004 to fewer than 700 workers now. Wheatland's workers have received three trade adjustment assistance certifications since 2004. Most of those workers would love to come back to us if we had sales to support them.

We have the capacity to meet demand. We can increase our shifts and the number of days we operate. We can't as long as imports from China are in the market at the levels we see now.

With imports from China taking more and more of the market at prices that we cannot come close to matching, the remaining domestic market available to us has shrunk. We have obviously lost numerous sales to imports, but they are difficult to document on a sale-by-sale basis. The best evidence of our lost sales is lost market share.

Earlier this year we instituted what we call a "foreign fighter" program aimed at stabilizing our loss of market share to the Chinese. It has not been successful. We have learned that many of our customers have committed to Chinese product that they have already ordered for the next six to nine months.

In previous years most of our competition with imports from China occurred along the coasts, especially the Pacific and Gulf coasts. Now imports from China have reached into the heartland, and there is no place in the United States where we don't have to compete against these imports.

The result of our price competition is showing up on our bottom line. Operating profits so far this year have declined significantly from prior years, and there is no improvement in sight. Our raw material costs, especially zinc, have increased, as have our energy costs.

We have always tried to raise our prices when our raw material costs increase. The problem is that as imports from China have increased it has become far more difficult to have these price increases stick. Even if an announced price increase is accepted when it's issued, the price increase tends to erode in the face of dumped and subsidized imports.

The pressure on the market caused by the enormous surge of imports from China forces us to reduce our prices again. By the time of our next announced price increase, we have often lost all the benefit of our prior announced increases, if not more.

In recent months, notwithstanding increased steel costs, we have stopped announcing any price increases for most of our products. We have been forced to absorb the extra cost rather than lose even more sales to lower priced Chinese pipe. As a result, after managing to keep up with rising costs in 2004 and 2005, our prices have not kept up with costs since then. Our prices in fact have begun to fall, approaching 2004 levels. This trend is not sustainable.

In prior investigations, representatives of the Chinese pipe industry have argued that pipe from

China cannot really compete with domestic pipe because of the long lead times between ordering and delivery. This one advantage that the domestic industry used to have is disappearing due to the increasing presence of master distributors.

These companies will buy pipe from China without having sold it in advance. At the dumped and subsidized Chinese prices, they can afford it. They will then keep the pipe in inventory and sell it out of that inventory with the same or less lead time that the domestic industry offers.

From the point of view of the distributors and other purchasers who buy from master distributors, there is no difference in immediate availability between domestically produced pipe and Chinese pipe, and the Chinese pipe is vastly cheaper.

It must be remembered that the demand for pipe is derived demand. No one is going to forego building an office building they would have otherwise built just because the price of pipe went up. The cost of pipe in a typical construction project is certainly less than one percent, but in a commodity product like pipe the distributors and end users who buy pipe from us buy mostly on the basis of price.

We are seeing more and more of our long-time customers buying more and more pipe from China. Without relief from the Commission that trend will continue, and I'm afraid we will see more U.S. pipe mills go the way of our Sawhill Tubular plant and the many other pipe producers that went out of business before Sawhill.

Thank you.

MR. FILETTI: Good morning, Mr. Carpenter and members of the Commission staff. For the record, my name is Rick Filetti. I'm the president of Allied Tube & Conduit, and I'm joined today by Bob Bussiere, our General Manager of Sprinkler Pipe Sales.

I've been with Allied for 22 years. My career experience has been in steel and steel-related industries. I've held positions in manufacturing, in engineering, in finance, and I've been the president for the last seven years.

Allied has four manufacturing plants which produce stents and sprinkler products which are included in the subject products. We also produce a variety of other products which are not included in the subject products.

Our business started over 40 years ago in Harvey, Illinois. It's a south city of Chicago. Our patented in-line galvanizing technology is the backbone of our competency. In fact, we have licensed this technology to Japan and other European countries.

Over the years we've maintained our leadership position. We've invested heavily in technology and equipment advancements. Today we are one of the most efficient and high speed pipe and tube producers in the world. It is clear and demonstrated that we are a leader and we are an efficient, low-cost producer. We have no licenses in China.

Before consolidation became a popular buzz word in the steel industry, we were a leader in that area as well. In the 1990s we purchased American Tube in Phoenix, Arizona. We previously served the west coast market from our Chicago plant. The west coast market is a very significant market for circular welded pipe. Having the plant in Phoenix, Arizona, has significantly reduced our freight expense for competing in that west coast market.

In 2001, we purchased Century Tube in Pine Bluff, Arkansas, giving us a major plant for producing subject products in the fast-growing south central part of the U.S. As part of consolidating these companies we kept and upgraded their best mills. We mothballed their old and outdated equipment, improving their efficiency and their cost structure.

Today we produce the subject products in Phoenix, Arizona, Philadelphia, Pennsylvania, Harvey, Illinois, and Pine Bluff, Arkansas. Our goal is and will always be to operate on a base-loaded basis, a five-day, 24-hour-a-day production basis, utilizing six and seven days for seasonal spikes in demand or demand growth.

We've been able to produce efficiently under this schedule for some time. However, beginning in 2004 and continuing until the present time we have been unable to regularly operate our plants on this schedule. Instead, we've had to reduce mill shifts, take periodic weekly shutdowns. This is solely because of a massive surge of imports from China because market demand for our products that we produce is growing.

Since 2004, we have struggled to maintain enough volume at our four plants, trying to avoid shutting down one of them. It is important for this Commission to realize that in each of the four plants we operate -- South Chicago, North Philly, Phoenix and Pine Bluff, Arkansas -- our plants are an integral part of the economic community in which we are located. The availability of comparable jobs in those areas is basically nonexistent.

In order to improve our mill utilization rates we have tried to increase market share through aggressive sales and pricing strategies. However, these efforts have not successfully offset the losses that we've incurred from the Chinese import surge that we've been witnessing. If these unfairly traded imports continue it is very clear that Allied will have to make and be forced to make very difficult decisions regarding continued operation of our mills.

In my 22 years, the first quarter of 2007 has been our worst quarter financially. This is particularly amazing because these 22 years have seen two major recessions. However, in the first quarter of 2007 we were facing increased steel costs, massive increases in zinc, higher energy costs, but instead of having increased prices to cover these increased costs in the face of this Chinese competition we're actually reducing prices. We're trying to hold onto the volume where we can.

In a market where the Chinese have been gobbling up market share we can compete against anyone in the world, but we cannot compete against the Chinese Government.

In conclusion, the Chinese unfair trade policies have resulted in Allied reducing production shifts, scheduling weekly outages and poor financial results. It makes no sense for Allied to shut down any of our absolutely most efficient, technologically advanced, environmentally compliant mills in the world versus our Chinese competitors who are heavily subsidized, they are less efficient and highly polluting.

As has been discussed and as will be discussed by others on this panel, there is nothing wrong with the demand in our markets. Our problems are the imports from China, and Allied's business cannot thrive until something is done to make the Chinese trade fairly in the U.S. standard pipe market.

We come to you today as a very important part of the solution to this problem, and I would be happy to answer any questions you may have later. Thank you very much.

MR. BARNES: Good morning, Mr. Carpenter and members of the Commission staff. For the record, my name is Scott Barnes, and I'm Vice President of Commercial for IPSCO Tubulars, Inc.

We produce ASTM A-53 standard pipe products in sizes ranging from 1.9 to 16 inch outside diameters at our mills located in Blyville, Arkansas, Comanche, Iowa, and Wilder, Kentucky.

IPSCO has been committed to the standard pipe industry for many years. This means that regardless of how strong or weak demand might be for the other products that we produce such as oil country tubular goods and line pipe that we are actively supplying our standard pipe customers with products to meet their needs. I think our questionnaire response demonstrates that we have never abandoned the standard pipe market because of a strong oil country tubular goods market.

Now, of course, as our president and CEO recently testified in the OCTG sunset hearing, we need the standard pipe market more than ever because even in the midst of a relatively strong oil country market our volumes are suffering because of massive surges of Chinese imports.

At our IPSCO Tubular plants in Blyville, Comanche and Wilder, we source steel from outside vendors such as Nucor, who has a plant adjacent to ours in Arkansas, or other vendors, as well as our own IPSCO Steel in either Iowa or Alabama.

We pay market prices to all of our steel suppliers. Steel is far and away the highest part of our cost structure. Therefore, when all of our steel suppliers raise their prices to us by approximately

$60 per ton for March and April deliveries, IPSCO Tubular has announced a price increase to be effective April 16 of $60 a ton to reflect our rising cost.

We were completely unsuccessful with that price increase because our customers could source huge amounts of low-priced imports with the majority of these imports from China. Chinese products are typically the lowest prices in the market. In fact, instead of prices increasing to cover our rising costs, our prices have been falling due to competition with China.

In December 2006, IPSCO completed the acquisition of the NS Group, which included Newport Steel. We have since renamed that IPSCO Kentucky. Newport had previously abandoned the standard pipe business because pricing and returns were so low. As stated publicly at the time of the acquisition, Newport's capacity utilization rates in the 40 to 50 percent rate were far below IPSCO's capacity utilization rates.

One of my objectives is to expand our standard pipe business and decrease freight costs while achieving efficiencies through increasing utilization at the IPSCO Kentucky plant, doing this through reintroducing standard pipe production and sales. However, these plants have been made much more difficult to attain because of the large volumes of low-priced Chinese imports in the U.S. market.

IPSCO's standard pipe business has not generated acceptable financial returns during the period of what's been described as a strong demand period. This is clearly a result of Chinese competition. We are also unable to utilize our capacity efficiently. We must improve our standard pipe business while there is a strong market. As converters, we must be able to pass along increased costs to our customers.

Unfairly traded standard pipe imports from China are the problem for our standard pipe business period. We've come to you and the Department of Commerce to remedy this problem, and we appreciate your efforts in that regard.

Thank you.

MS. HART: Good morning. Good morning, Mr. Carpenter and members of the Commission staff. For the record, my name is Holly Hart, and I'm the Legislative Director for the United Steelworkers.

I'm here today before the members of this conference because this case is very important for our union. We represent most of the workers in this industry, including the workers at Allied Tube & Conduit, California Steel Industries, Levitt Tube Company, Lone Star Steel, Maverick Tube, IPSCO Kentucky, Sharon Tube Company, Stupp Corporation, Textube Company, U.S. Steel and Wheatland Tube Company.

We have lost approximately 500 jobs in this industry over the last several years, and most of the workers who have kept their jobs are working reduced hours and taking home smaller paychecks as a result.

These events have occurred during a period of strong nonresidential construction and strong demand for these products. If not for the massive surge of imports from China, which reached 650,000 tons in 2006 or about 30 percent of U.S. consumption, we would have more union members producing standard pipe in this country, not fewer.

I'd like to enter as an exhibit to the conference hearing transcript a picture that appeared in the front page of the *Sharon Herald* on May 16, 2007, showing the destruction of Wheatland's Sharon, Pennsylvania, plant.

This plant, built in the 1960s by Sawhill Tubular, once employed 700 to 800 workers. As Mr. Magno referred to in his testimony, Wheatland purchased this company in 2002 and invested $25 million in the plant. In 2003, approximately 400 steelworker members were producing 250,000 tons of pipe in that plant.

Today, Mr. Carpenter, for one reason and one reason only -- namely imports from China, coupled with the failure of our government to remedy the problem with Chinese imports -- that plant is now rubble.

Unfortunately, just over 400 workers and thousands of their family members now have to drive by an empty lot on the main street of Sharon, Pennsylvania, each and every day. It's a very harsh and sad reminder of what was once a vibrant manufacturing plant and a mainstay of the local economy for over 100 years.

There's a lot of talk in Washington now, including from the President, about growing income inequality in the United States. It's a major issue that our union focuses on, and without a doubt there's nothing that increases income inequality faster in the United States than allowing hundreds of billions of dollars of unfairly traded imports from China to come into the United States of America so a few major multinational corporations, importers, distributors and others can make a fortune off their goods while

American workers struggle to make a decent living.

For our union members, basic costs for mortgages, fuel for their cars, education expenses for their children and even food costs are all increasing rapidly, but even more disturbing is the fact that they are denied the opportunity to work and increase their incomes because unfairly traded imports are eradicating these good jobs. We're basically losing the American middle class that these good, family supportive manufacturing jobs helped to create.

China does not have a comparative advantage over U.S. producers. What is the Chinese advantage in producing steel pipe? Is it making products in steel mills and pipe and tube mills with no environmental costs so they can pollute their own streams and rivers and the earth's atmosphere? No.

Their production facilities are not as good as our production facilities. Ours are technologically better. Their workforce is not as productive as our workforce, but they benefit from currency manipulation, government subsidies and a stark lack of worker rights and environmental regulations.

I'm here today on behalf of the men and women my union represents to ask the International

Trade Commission and the Department of Commerce to take action to stop these unfair imports before we witness the loss of the remaining good jobs in the standard pipe industry as our union has witnessed in countless other manufacturing industries across the country.

Thank you.

MR. DORN: Mr. Carpenter, Joe Dorn with King & Spalding again. I'd like to zero in on those statutory criteria that I referred to in my opening statement in a little bit more detail now with respect to the issue of material injury.

On the record of this case, there's far more than a reasonable indication of material injury, which is the standard that you will apply in this preliminary phase of the investigation. First, the volume of imports is significant, and the increase in the volume of imports is significant.

The Commission found in the Section 421 investigation that China became the largest single supplier to the United States for the first time in 2004, and it remained the largest single supplier in the first half of 2005.

The Commission also found that Chinese exporters participating in that investigation projected that their excess capacity would exceed 750,000 tons in 2006. Imports have continued to increase since those findings made in the 421 case.

In 2006, as shown in Exhibit 7 to our petition, imports from China represented 55 percent of imports from all countries and were equal to very substantial percentages of estimated U.S. production and estimated U.S. consumption, clearly significant within the meaning of the statute.

The increase in the volume of subject imports has been extraordinary. Imports jumped by 143 percent from 2004 to 2006 and increased another 22 percent from the first quarter of 2006 to the first quarter of 2007. These are dream statistics for a Petitioner's trade lawyer. You don't see these kind of import trends very often.

China's share of imports from all countries increased from 29 percent in 2004 to over 63 percent in the first quarter of 2007, again unbelievable trends. As shown in Exhibit 10 to our petition, the subject imports have increased sharply in relation to the estimated U.S. production and in relation to estimated U.S. consumption.

Given these data, no one can seriously suggest that imports from China have not had a serious adverse volume effect on the domestic industry and its workers as these witnesses have talked about this morning.

Second, subject imports have undersold and adversely affected domestic prices. Chinese pipe and domestic pipe are made to the same ASTM specifications. They are sold in the same applications, through the same channels of distribution. They are sold largely on the basis of price. The Chinese imports are clearly the downward price drag on the U.S. market.

As shown in Exhibit 13 of our petition and also in this bar graph slide before you, the average unit value of imports from China is lower than that of nonsubject imports during every year, every period, in the period of investigation. In fact, the spread is increasing from 23 percent lower in 2004 to 31 percent lower in the first quarter of 2007.

The Chinese exporters have not offered a better product or a better service to grab market share. They've used unfair prices and nothing but unfair prices. Take away the unfair pricing, and you take away their unfair share of the U.S. market.

In the Section 421 investigation, the Commission found prevalent price underselling. As stated in the views of Chairman Koplan and Commissioner Lane, "This rapid increase in imports from China coincided with continuing significant underselling of the domestic products by the Chinese producers. This underselling has suppressed prices in the U.S. market and has resulted in lost sales by domestic producers."

The record of this preliminary investigation will dictate the same findings and the same conclusion.

According to a May 2007 article attached to our petition in Exhibit 12, prices for circular welded pipe from China are about 30 percent lower than domestic producers' prices. We think that the actual difference is even greater than that.

It is true that Wheatland and other pipe producers have announced multiple price increases since January 2004. They had to. Their suppliers announced price increases. Those price announcements have represented the efforts of this industry to keep pace with sharply increasing costs of steel, zinc and energy.

But as the dumped and subsidized imports have increased their share of the market, they've also demonstrated they're going to keep doing it. They're going to keep surging in. There's plenty of additional supply for this trend to continue. That tells the marketplace this is not a temporary situation. It's a continuing situation. As a result, it has become increasingly difficult to make those price announcements stick.

In recent months, the industry has just been treading water with costs rising, but prices staying even or eroding. Without relief from the adverse effects of the Chinese pipe, domestic producers will continue to suffer price suppression going forward.

Third and finally, the adverse volume and price effects of imports from China have had a significant negative impact on the domestic industry's performance and financial condition. As you've heard today, demand for circular welded pipe is derived demand for nonresidential construction, which has steadily increased during the period of investigation as shown on the graph. It's up, up, up, up, up, meaning that demand for pipe has been up, up, up.

In addition, the weakening dollar in relation to the foreign currencies of substantially all foreign pipe suppliers to the U.S. should have enabled the domestic industry to gain a larger share of a growing market during the period of investigation.

This is especially true with respect to the eight countries that are already subject to antidumping orders. If exporters in those countries lower their prices to compensate for the weaker dollar their dumping margins will go even higher. In effect, unfairly priced imports from China are robbing the domestic industry the benefits that they should be deriving from the antidumping orders that are already on the books.

Given the confluence of these favorable market conditions, the domestic industry should have enjoyed increasing sales, capacity, production, employment and profits during these years. Instead, it has lost substantial market share, suffered lost capacity and jobs and suffered decreasing sales, production and profits.

For example, at the end of 2004 Northwest Pipe Company ceased production in its Bossier City, Louisiana, plant. Last year, as you heard, Wheatland had to close its Sawhill pipe mill in Sharon, Pennsylvania, in which it had recently invested $25 million for equipment upgrades.

The adverse volume and price effects of the unfairly traded imports have also flowed through to the bottom line. We believe that the record will show, as Mr. Filetti indicated, that the industry's profits fell sharply in the first quarter of 2007 at the very time when they should have been increasing in response to strong demand for pipe and a cheap dollar, which gives them a comparative advantage to most foreign pipe suppliers.

In conclusion, the evidence before the Commission shows there is a reasonable indication, far more than a reasonable indication, that the U.S. industry is already being materially injured by reason of dumped and subsidized imports of pipe from China.

There is no need for the Commission to even consider the issue of threat. The threat of more injury, however, is certainly clear, as Mr. Schagrin will now explain.

MR. SCHAGRIN: Thank you, Joe.

For the record, my name is Roger Schagrin of Schagrin & Associates, and I agree with my colleague, Mr. Dorn, that this is an overwhelmingly strong material injury case, and I don't think any Commissioner will have to turn to an analysis of threat factors.

However, as I learned in the Boy Scouts, it always makes sense to be prepared and so just in case any Commissioner makes the mistake of not making an affirmative injury determination I would like to go over some of the statutory threat factors and the facts that support an affirmative threat determination.

First is excess capacity. In the Section 421 investigation the Commission found total Chinese capacity of 3.5 million tons for subject products in 2004 and approximately 800,000 tons of excess capacity. Amazingly, the projections from the Chinese industry were for no expansions of capacity in 2005 or 2006. That is truly amazing.

In fact, it is much more likely that capacity in China to produce subject products in '05 and '06 and going into '07 has expanded by a million tons or more as literally dozens of new producers of subject pipe have opened up in China and other producers have increased their capacity by adding more mills.

The second statutory threat factor to be considered is a rapid recent increase. There has been a massive rapid increase of Chinese exports to the United States from 278,000 tons in 2004 to 650,000 tons in 2006. Those Commissioners finding injury or threat of injury in the 421 case were obviously correct.

Those Commissioners who gave credence to Chinese promises that exports to the United States would decline in 2005 and 2006 were clearly defrauded by false information being proffered to the Commission. To paraphrase one of my favorite Who songs, they should not be fooled again. No, no.

But I think there's an important point. You know, this Commission institutionally, and I think that the staff that we have on this particular investigation has a tremendous amount of experience here at the Commission. You have a strong institutional interest in making sure that the information given to the Commission on the record is accurate information.

You can't go out and verify every foreign producer response that you receive in these investigations, so if the entire Chinese industry in 2004 says we're not going to increase capacity and our exports to the United States are going to decline and you see in a later investigation that that information was clearly incorrect then you as the Commission have to make efforts to ensure that there are penalties for that.

We can discuss during the question and

answer part of this that the Commission has in its own way exacted those types of penalties in past situations in which you've had a chance to revisit a record.

A little story, a little aside on this issue of the credibility of the Chinese as to their future export plans because we already heard in this morning's introduction that now that the rebate is gone don't worry. Chinese exports are going to fall.

I don't think you can give anything the Chinese say in this investigation any credibility. A number of the people at this table participated in a meeting at the White House between Christmas and New Year's in 2005 -- actually it was at USTR, but with a lot of folks from the White House office -- to talk about the impending 421 decision. We had a sense of impending gloom and thought the situation was going to be negative.

Now, the White House folks were saying, you know, with the boom in China with the 2008 Olympics their demand for these products is going to be incredible in China, so we don't think there's going to be increased exports to the United States, which is exactly what the Chinese told the Commission, told the TPSC, told the White House.

Well, one of the other attendees at that meeting who is now no longer in the industry had just been to China, and he told these White House officials. He said I was in China for three weeks visiting various pipe and tube mills who all wanted our U.S. company to represent them in the U.S., and each of these Chinese pipe companies said we plan on doubling or tripling our exports to the United States in the next year or two and we'd like you to help us.

How at the same time could Chinese mill executives be saying we're going to double or triple our exports to the United States and these same Chinese foreign producers were telling the International Trade Commission in questionnaire responses to which they verified the accuracy that they were planning on decreasing their exports? I think the Commission should penalize the Chinese for the false information proffered during the 421 case.

Third statutory factor, underselling. There is massive underselling by Chinese imports of the domestic industry. As can be seen from the record in this investigation, underselling in the amounts of 20, 30 or 40 percent of a fungible commodity product will lead to increased exports. That is what has occurred. That is what will occur in the future in the absence of relief.

Fourth statutory factor, product shifting. The United States presently imposes antidumping duties on Chinese hot-rolled sheet and Chinese cut-to-length plate. Many Chinese producers produce both the raw material products, as well as pipe and tube. These producers have an incentive to avoid the dumping duties on hot-rolled sheet and cut-to-length plate by shipping pipe to the United States.

Secondarily, they have an incentive for selling flat-rolled that they cannot dump in the United States at low prices in China to independent Chinese pipe producers who can then substantially transform it into pipe, circumventing the orders on flat-rolled in the U.S. and shipping pipe and tube to the U.S.

Fifth statutory factor, high inventories. We believe that inventories of Chinese pipe in U.S. importers' yards at the ports, at U.S. distributors' facilities, and I recognize that until you get purchaser questionnaires you won't find out about distributors, but we believe based on visits that these gentlemen make to their customers that the amount of Chinese pipe that distributors are holding right now is absolutely massive. There's a tremendous inventory overhang, and it's because of the huge volumes of Chinese pipe.

Finally, we believe the Chinese producers themselves, if they were truthful to you, have massive amounts of inventories which is why they are rushing product to free trade zones in China to take advantage of this 13 percent rebate.

If they didn't have higher inventories, how could they increase their available exports to the United States so quickly with just a week or two notice from the Chinese Government? The existence of all these high inventories threatens further injury to the U.S. industry.

Finally, the most recent import data shows a massive surge of imports from China. For your record, you will have actual data for first quarter imports, and I think Mr. Durling referred to in his opening saying if you only look at imports on a quarter-by-quarter basis and never look at it as 2004 to 2006 then you'll see that imports actually started going down a little bit in the fourth quarter of '06 and the first quarter of '07.

Well, the data will show that the second quarter of 2007 will have the highest volume of imports from China ever. The actual May Census data shows 90,000 tons of imports from China in just the month of May.

We only have licensing data for the first three quarters of June, and it already shows over 80,000 tons of imports. June, when we get the full data, could well be over 100,000 tons of imports. That is doing massive damage to this industry at this current time.

Finally, there are clearly no Bratsk issues in this case. I know the Commission can consider Bratsk issues both in terms of injury and threat of injury. As Mr. Dorn mentioned, most of the other major exporters are covered by dumping orders and, very thankfully, just this past July the Commission continued all of those orders on circular welded pipe by unanimous determinations.

With the currencies of those foreign exporters appreciating against the dollar, they are unable to export to the United States without increased dumping duties being collected, and therefore we believe very strongly that the benefit of relief from antidumping and countervailing duty orders will accrue to the U.S. industry.

Thank you.

MR. DORN: Mr. Carpenter, that completes our testimony. I would like to just mention two exhibits if I could.

The first with respect to PowerPoint slides, with your permission I'd like to hand up a complete set that includes the slides used in the opening statement and the ones used in the main presentation just now.

MR. CARPENTER: Excellent. Thank you.

MR. DORN: And then also I'd like to hand up there's been a lot of reference to the projections that the Chinese made in the 421 case. I'd like to hand up excerpts from a September 12, 2005, prehearing brief of Respondent, Certain Circular Welded Nonalloy Steel Pipe From China.

At page 72 of that brief in the public version, of course, they state, "Chinese exports to the U.S. will decrease to 238,771 tons in 2005 from 250,437 tons in 2004 and will further decrease to 204,269 tons in 2006, close to the presafeguard level in 2000. Clearly the growth rate of Chinese imports has substantially tapered off starting in the second half of 2005."

And then on page 73, which we've also included in this exhibit, that contains their Figure 32, Projected Chinese Shipments to the U.S. Market, which was captured in the PowerPoint slide that we showed during my opening statement. We superimposed on top of that bar graph from the Chinese Respondents what actually happened in 2005 and 2006.

With the submission of this additional exhibit, we close our presentation. Thank you.

MR. CARPENTER: Thank you. Have you provided copies of this final exhibit to the court reporter?

MR. DORN: Yes.

MR. CARPENTER: Okay. Thank you. And do the other set of exhibits include Ms. Hart's exhibit as well?

MR. SCHAGRIN: No. That's separate.

MR. CARPENTER: Okay.

MR. SCHAGRIN: But we have provided that.

MR. CARPENTER: Okay. As long as the court reporter has all those, we'll attach those to the transcript. Thank you.

MR. DORN: Thank you very much.

MR. CARPENTER: And thank you again very much, all of you on this panel, for your expert testimony. We appreciate your coming here today and talking to us.

We'll begin the questions with Cynthia

Trainor from the Office of Investigations.

MS. TRAINOR: I have no questions at this time.

MR. CARPENTER: Charles St. Charles, General Counsel's Office?

MR. ST. CHARLES: Good morning. Thank you very much for your testimony. It's been very helpful.

I too have no specific questions at this time. However, I thank Mr. Schagrin for introducing the Bratsk issue and would welcome any comments from the various counsel on the extent to which Bratsk is and is not applicable in this particular investigation.

In your brief would be fine. If you want to discuss it further now, that would be fine too.

MR. DORN: Well, just very quickly, I mean, I agree with what Mr. Schagrin said. I mean, if you look at the facts of this case it's hard to see where there would be a Bratsk issue because we have eight other major suppliers that are all under antidumping order.

Also, if you look at the difference in the average unit value of the imports from China versus the average unit value of the imports from all other countries it's very clear from everything you've heard and from the data that there can be no replacement of Chinese imports by nonsubject imports.

We will address that in detail in our postconference brief.

MR. ST. CHARLES: Thank you.

MR. SCHAGRIN: Mr. St. Charles, Roger Schagrin for the record. I would just add that if you look at all the major exporters to the United States of this product after China -- and China now is the overwhelming exporter -- the only country that's a major exporter that's not covered by orders is Canada.

As this Commission has found quite a bit recently in determinations, the fact that much of the Canadian production is owned by U.S. producers one can reasonably infer that the U.S. producers who have Canadian facilities are not going to increase exports to the United States nor to injure their U.S. facilities, so that's another item that the Commission might consider when it looks at nonsubject imports.

MR. ST. CHARLES: Thank you.

MR. SCHAGRIN: A totally separate issue. We have made adjustments to the Canadian import statistics, which is something -- I don't know -- Mr. Corkran might ask about later. It's something I know he's addressed in previous determinations.

MR. ST. CHARLES: And I did see you had done that anyway. Thank you. Thank you very much.

MR. CARPENTER: Mr. Benedick from the Office of Economics?

MR. BENEDICK: I do have some questions, and thank you for your testimony.

I'd like to ask Mr. Magno first. You commented that it was difficult to document lost sales. Could you explain why?

MR. MAGNO: Again, Mark Magno from Wheatland. To talk a little bit about the typical selling transaction is that we have prices with our distributors. They're competing in the marketplace. We know the business that we're getting obviously through purchase orders.

If they have competitors in the marketplace which are selling significantly lower priced material -- in this particular case Chinese pipe -- what will happen is that they know that we cannot drop our prices 50 percent to compete on that level so they don't come to us with those lost opportunities.

It's not like some parts of the business where there's this huge order and then you quote it and you know it or don't know it. You know if you get the order or not. They're smaller, more daily transactions, and eventually you don't have any opportunities to quote because they know that your prices are higher than the competitor's.

MR. BENEDICK: Now, how do you know that you've lost sales to the Chinese as opposed to product from another country or another U.S. producer?

MR. MAGNO: We're calling on these customers every single day. We have very close contact with them. We visit their facilities.

We see the Chinese pipe in their yards. They tell us how much product they're buying from China. They tell us the cost that they're paying from China, so we have those types of interactions.

MR. BENEDICK: And then you know you've lost sales because your sales to that particular distributor are down?

MR. MAGNO: Yes, sir. We can tell. What we also see as business increases because nonresidential construction has been increasing, our sales have been decreasing, although the distributors report that their sales are increasing, so their overall sales are increasing. However, our share of the business goes down.

MR. BENEDICK: Let me ask you another question. Again, you had commented on master distributors. Did you say that they imported the Chinese material, or did they buy imported Chinese material and are now holding it, what you said, in large inventories?

MR. MAGNO: Yes. They would purchase it and bring it into an inventory, whether it's inventoried at a dock, whether it's inventoried at their facilities or their warehouses or some other type of bonded warehouse. They're now bringing it in and then reselling it on a significantly lower lead time than before.

MR. BENEDICK: Okay. When you said they're bringing it in, does that mean they are importing it, or are they buying it from importers?

The reason why I'm asking the question is would we find that out in our data set where we've gone to producers and importers, but we've not gone downstream to distributors and other customers who would buy the product from importers and producers?

Mr. Schagrin?

MR. SCHAGRIN: Yes. Let me jump in here, Mr. Benedick, and then after I answer this question I did want to go back and complement something Mr. Magno said earlier about tracking information on lost sales.

It's our understanding that a lot of the master distributors still are buying through trading companies and so I don't think your data set to importers, importers of record, is going to find a lot of the master distributor inventories that are here because they may be buying some direct, but they're still mostly buying through trading companies.

And those are the folks who are going to file the importer questionnaire responses so you won't pick that up until the final when you get purchaser responses because those master distributors will be among the largest purchasers.

I would like to add earlier in a question of yours, Mr. Benedick, you said how does someone in the domestic industry know whether they're losing sales to the Chinese, imports from another country or another domestic producer, and the fact is that in a fungible commodity product like the subject circular welded nonalloy pipe which is sold simply according to specification and price and goes through this vast distribution network, in a vast majority of circumstances domestic producers don't know whether the sales volumes being lost as their sales are declining or if they're not increasing even though the market is increasing is going to Chinese, other imports or domestic.

That's why reliance on the overall record data, the 680,000 tons from China aren't of any products other than the same products the domestic industry would make. All 680,000 tons of imports from China are sales that the domestic industry lost. We have the capacity to supply that. We make the exact same products the Chinese do. We make the exact same products as nonsubject imports.

So in this type of case reliance on market share I think is very important, and essentially all of the imports from China if they're underselling the domestic industry are lost sales for the domestic industry.

MR. BENEDICK: Okay. That would be the argument that the domestic industry would make.

The importers might make the argument that the Chinese material is creating the demand through the lower prices and substituting for other products that could be used for circular welded pipe. Could you address that argument?

MR. SCHAGRIN: Yes, I'd be happy to. I don't think that argument holds any water, and I've been working with this industry for about 25½ years.

About 25½, maybe 30, 40 years ago -- not to date myself -- plastic really took over the residential side of this business where it was just easier for plumbers to work with plastic than it was with steel pipe. You know, that's already done and gone.

The idea that really inexpensive Chinese A-53 pipe or sprinkler pipe or fence tubing is creating new demand because plumbers are going to come into my house and say hey, I would have normally used plastic, but Chinese pipe is so cheap now I've decided to carry something that weighs about 25 times more and break my back to bring Chinese pipe into your house. It just doesn't happen.

It is impossible in this particular industry for the Chinese to create demand through lower prices. They create demand for Chinese pipe versus domestic, but they can't create new demand. I don't think anything has changed in terms of the conditions of competition between this product and alternative products, which are really either plastic or brass, brass/copper, in the last 30 years.

I don't know if Mr. Magno or Mr. Barnes or Rick or Bob would add, but I don't think anything has changed in the last 25 years in terms of competing products.

MR. FILETTI: No, nothing's really changed.

MR. BENEDICK: Okay. I have a question for Dr. Seth Kaplan who I see sitting back there.

If he could comment in the postconference brief about the demand elasticity in this industry and whether the lower prices of the Chinese product would be expanding total demand as the result of lower prices, that would be helpful. Thank you.

I have a question for Mr. Dorn. You were using average unit values, and these I guess were import average unit values, of the Chinese product and of nonsubject circular welded pipe and showing that the average unit value of the Chinese product was lower; therefore lower priced.

Just looking at price lists, I see that there is a broad range or a large range of product in this industry at different prices. Could the Chinese be bringing in a lower priced item -- not necessarily a lower quality, but an item at the lower end of the price spectrum -- and nonsubject countries bringing in product that's at the higher end of the spectrum?

MR. DORN: I think it's just the opposite because as I understand it from your findings in the 421 case a disproportionate amount of the imports coming in from China are galvanized pipe, which should be more expensive than nongalvanized pipe. I mean disproportionate to the market.

MR. BENEDICK: And the nonsubject are not bringing in the galvanized?

MR. DORN: My understanding is that the nonsubject would be more in line with normal market distribution in terms of the galvanized versus nongalvanized, but the Chinese in particular have been focusing more on the galvanized side, so if anything those comparisons understate the difference.

MR. BENEDICK: Okay. I have another question, and I'd like to go back to Mr. Magno again.

Are circular welded pipe products in the U.S. priced in dollars per 100 feet or in dollars per short ton when you quote prices to your customers?

MR. MAGNO: The far majority are in dollars per 100 feet. There might be a very small segment of a product line that might start as a price per ton, but it's converted to a price per 100 feet.

MR. BENEDICK: And why is that as opposed to dollars per short ton?

MR. MAGNO: I think just over the years the customers prefer what their net delivered price per 100 feet is because they're buying --

MR. BENEDICK: Length.

MR. MAGNO: Right. They're buying 1,000

feet of it, so they want to know what the price is for 1,000 feet.

MR. BENEDICK: Okay. Are prices based on an inside diameter or an outside diameter of the pipe? When you spec a product to your customer, is it the inside diameter or the outside diameter that you're referring to?

MR. MAGNO: In some product lines it might be an outside diameter. Like in our fence product line that industry talks a little bit more in outside diameters.

In say the half through six-inch pipe, industrial and plumbing side of the business, that's more spoken as an internal diameter, so one-inch versus 1.375.

MR. BENEDICK: And in the specs do you also quote a wall thickness or gauge for the pipe?

MR. MAGNO: Yes, we would typically do it, either a schedule like a Schedule 40 pipe or a Schedule 80 pipe, and in some other products it might be a specific wall thickness.

MR. BENEDICK: Okay. I wonder if you could comment on the products that the Commission asked pricing data for where we asked it in dollars per short ton with a nominal outside diameter and we looked at a range within each product category as opposed to a specific diameter and we did not mention, as far as I can see, anything with respect to gauge or wall thickness.

How useful are those product descriptions for gathering price data for purposes of price trends, as well as comparing absolute price levels between domestic producers and the importers?

MR. SCHAGRIN: This is Roger Schagrin, Mr. Benedick. Those pricing products are great for determining that because, A, the Commission has about a 25-year experience and I think about maybe 30 or 40 cases on this particular product and has always gathered the pricing in that manner.

While it might seem oh, it's easier to do it in terms of price per 100 feet if that's what everybody is selling it at, the fact is the conversions for everyone in the industry are very easy. It's not difficult. These people can probably do it, you know, off the top of their heads. I can't. I'm just not quick enough, but they can because they're in the business.

Secondly, the products that you have determined aren't just products the domestic industry has suggested to the Commission over the past. Those products have been suggested by the foreign Respondents and importers as well because they're the high volume products in the industry.

Finally, I don't really think among either domestic producers, importers, purchasers, distributors that there's any difficulty in understanding these. Everybody knows when you say two- to four-inch nominal OD Schedule 40 pipe, everybody knows what you're talking about. It's not gee, this isn't exactly the way we do it. They all know in the industry.

MR. BENEDICK: I'm sure they know what that refers to, but how useful is it for our pricing data where we need to make price comparisons on an absolute price level?

MR. SCHAGRIN: It's completely useful because you are getting apples to apples comparisons.

MR. BENEDICK: Are you getting product aggregation problems with each of those product categories?

MR. SCHAGRIN: No. You know, in the past and the reason we did this, and I think in the pipe cases it has changed a little bit over time.

You know, at one time back in 1982 or 1984 we may have asked for pricing products just for a specific size, and then later there was a whole series of steel cases, some of which I participated in, in which the Commission said, you know, my God, in a market for 24 million tons of hot-rolled sheet why should we ask for only a gauge and went out to the industry and said are there really any price differences between this set of gauges?

In order to make our underselling analysis more relevant we ought to try to cover a higher share of the sales in the industry, and so reflective of that when the Commission started doing sunset reviews in pipe I think in 2000-2001 following this change in some of the steel cases to go to broader ranges it came back to the industry from the Office of Economics and said you know, are there really differences between two-inch pipe and three-inch pipe or four-inch pipe on a per ton or between one-inch or two-inch or eight-inch?

So given that there aren't differences on a per ton basis, that's why you can't gather 100 feet here because --

MR. BENEDICK: Are there differences on a per 100 foot basis?

MR. SCHAGRIN: Absolutely.

MR. BENEDICK: Between a two-inch and a

four-inch?

MR. SCHAGRIN: Huge. One is approximately twice the price of the other because you're getting twice as much, so that's why you have to convert it into tons.

MR. BENEDICK: Well, when you convert it into tons then you see no price difference. When you have it per 100 feet you see a huge price difference. So which is more appropriate for the reasons that we're gathering price data?

MR. SCHAGRIN: People converting them into tons.

MR. BENEDICK: And everybody in the industry, even though they get quoted per 100 feet, they automatically convert it in dollars per ton?

MR. SCHAGRIN: Yes, everyone as far as I know. I haven't run into anybody with any difficulty doing that over the last 25 years.

Mark, is there any difficulty you know of?

MR. MAGNO: As a producer, when we receive those questions it's very easy. We gather the data since it's invoiced in per 100 feet. We then just convert it into a price per ton. It's very simple.

MR. BENEDICK: Do your customers make a decision on whether to buy from you based on the dollars per 100 feet or the dollars per short ton?

MR. MAGNO: Typically it's dollars per 100 feet, but, I mean, if someone wanted a price per ton we would quote them that. It's the same price. You know, this price, whatever the price is, is the price per 100 feet or it gets converted in to the price per ton.

MR. BENEDICK: Okay.

MR. MAGNO: Our customers don't have a confusion over that.

MR. DORN: You know, frankly, Mr. Benedick, we just use the same product comparisons used or product descriptions that have been used in prior cases, but we'd be happy to sit down and talk with you and make some tweaks to do better if we can do that for the final investigation.

MR. BENEDICK: I'm just looking at how the prices are quoted in price sheets and then what we've asked, and there seems to be some differences. I just want to find out if what we're doing in our questionnaires is appropriate for the purposes that we're using price data.

MR. BARNES: Mr. Benedick, Scott Barnes with IPSCO Tubulars.

MR. BENEDICK: Yes, sir?

MR. BARNES: I would just like to add that we find, as with Wheatland, that the pricing is generated on a per ton basis and we calculate it into a price per foot or per 100 foot when we quote our customers.

They deal with that every day without any difficulty. Most of them will do just the same. They may take the price per foot and recalculate it on a per ton basis to figure out where we stand with the range.

With respect to your question on the groupings like two through four --

MR. BENEDICK: Yes?

MR. BARNES: -- those are very common throughout the industry. In fact, I think it also lines up quite nicely with the different mill capabilities because the mills themselves generally cane make up to four inch, four through eight, eight through 16 as an example.

The items per se in the standard pipe business are overwhelmingly the Schedule 40 size range, so you're hitting the heart of every one of those groupings when you capture it in that fashion.

MR. BENEDICK: Okay. Thank you very much.

I have one more question, and that's for Mr.

Magno. Is it a fair assessment to characterize the U.S. circular welded pipe industry as a high variable cost industry, as opposed to a high fixed cost industry?

MR. MAGNO: Yes, it's fair to characterize that.

MR. BENEDICK: Okay. And is it also correct to say that this industry needs to meet its variable cost to continue to produce, at least its variable costs?

MR. BARNES: I'll jump in on that. If we don't meet our variable costs we're liquidating the company.

MR. BENEDICK: Okay. Maybe in the short run for a short period you might not meet your variable costs, but certainly over a long time period you've got to meet variable costs?

MR. BARNES: You could look at it that way, but at IPSCO we don't sell below variable costs.

MR. BENEDICK: Okay.

MR. FILETTI: Mr. Benedick, this is Rick Filetti. We cannot sell below variable cost --

MR. BENEDICK: Okay.

MR. FILETTI: -- because of the high percentage of variable cost. You'd go out of business. Everything is cash out the door.

MR. BENEDICK: Okay.

MR. DORN: And this might state the obvious. We have to cover average unit cost.

MR. BENEDICK: I'm sure. Over the long run you've got to get fixed costs as well as variable costs in there.

Does that mean then that your production technologies are such that you could temporarily shut down the mill and then begin production again and it won't have a large impact on your unit costs, given the fact that you're such a high variable cost industry?

In other words, it will give you more flexibility to do that than if you were a high fixed cost industry and you needed to run the plant at 90 percent capacity utilization 24/7?

MR. FILETTI: If you continue to say intermittently run a mill you're going to increase your cost because there are certain inherent costs in stopping and starting a mill, especially if you're galvanizing because you have to thread the mill.

As you get into a situation of maybe I'll shut this down a day and start it back up versus running two days, you're going to significantly increase your material losses and your labor utilization losses, so you will increase your cost.

MR. BENEDICK: But aren't those mostly variable costs?

MR. FILETTI: Correct. They're mostly variable costs, but the volume effect of not having continued volume going through it, it increases your fixed cost on a per unit because you'd be selling less.

MR. BENEDICK: Right, but aren't your fixed costs fairly low compared to your variable costs? I'm not saying it wouldn't have any impact.

MR. FILETTI: Compared to variable costs, yes.

MR. BENEDICK: It would have an impact. It would have some, but it would give you a little more flexibility than if you were a high fixed cost industry where you had to run. You had to keep that furnace running because it's so expensive to shut it down and bring it back on again.

MR. FILETTI: If you're comparing to say a high fixed cost manufacturing process --

MR. BENEDICK: Yes. Yes.

MR. FILETTI: -- then the answer is yes.

MR. BENEDICK: Yes.

MR. BARNES: This is Scott Barnes with IPSCO Tubulars.

MR. BENEDICK: Yes, sir?

MR. BARNES: Just to make a comment with respect to variable costs, our costs are much lower when we run on a full four shift basis than when we run on a three shift or a two shift.

What you're doing is you're changing your variable cost structure for each time you lay a shift off, but you lose the efficiencies of running around-the-clock, and therefore your overall cost structure obviously goes high in a lower utilization rate.

MR. BENEDICK: Okay.

MR. SCHAGRIN: Mr. Benedick, I also just want to add there are some differences between producers in the industry depending on the type of production and the products produced. The producers or Mark can talk about this.

MR. MAGNO: Mark Magno.

MR. SCHAGRIN: A continuous weld mill.

MR. MAGNO: A continuous weld mill is a hot-fired mill where you heat a furnace up and so unlike some other types of mills you just don't shut that off and then turn it back on.

There is a period where it has to be

charged, heated up and then cooled back down, so that's a type of production facility that is not, you know, flipped on and off at demand.

MR. SCHAGRIN: Yes. And the same thing applies to those who are in the galvanized business, whether they use a hot-dip process such as a Wheatland, which is a pot with zinc.

That zinc has to be kept hot. They can't turn off the zinc pot unless it's empty or else all that zinc hardens up and they're going to spend a couple weeks with jackhammers trying to get the zinc out.

The same would apply even to those who do in-line galvanizing like an Allied Tube & Conduit. They have to keep the zinc in the line hot all the time once it's in there. It would just ruin their production line if they let the zinc cool and resolidify.

So there's some differences in the industry, even though nobody has an extremely high fixed cost like a steel mill. There are some differences, and some people have higher fixed costs given the nature of their process or the products they're making.

MR. BENEDICK: Okay. Thank you for that further explanation. I have no further questions.

MR. CARPENTER: Mr. Jee, the Commission's auditor?

MR. JEE: I have no questions, Mr. Carpenter.

MR. CARPENTER: Okay. Mr. Van Toai, the industry analyst?

MR. VAN TOAI: Thank you for your testimony. I have no questions.

MR. CARPENTER: Okay. Mr. Corkran, the supervisory investigator?

MR. CORKRAN: Thank you very much for all your testimony. I do have some questions in no particular order because I'm largely following up.

The first one I'd like to start with is a follow-up on something Mr. Benedick was asking about, the comparison of average unit values Chinese product to nonsubject product.

One thing that might be helpful I think to see is comparing the average unit value of Chinese to Canadian and then also to nonCanadian, nonsubject imports, the reason being it's noted in the brief that much of the Canadian volume is mechanical tubing.

To the extent that that changes the average unit comparison, it would probably be very helpful to get the Canadians out of that comparison figure and then look at the others.

MR. DORN: We'll be happy to do that.

MR. CORKRAN: I had a question about the statement that master distributors were becoming an increasing presence in the U.S. market.

I was wondering -- I believe, Mr. Magno, that was your statement -- if you could, one, elaborate on that because I'm wondering who these new players are. I don't recall seeing any new names coming up.

And then also would you elaborate on whether that's true for the various different forms of standard pipe; that is, the product used in plumbing applications versus maybe defense applications, and maybe Allied can speak more to defense applications or conduit shell. I'll leave it at that.

MR. MAGNO: I think we're getting into a little bit of our commercial area. I'd be more comfortable if I did this in a post brief and gave a little bit better explanation of that.

MR. CORKRAN: Okay. Let me back up to the most general question.

MR. MAGNO: Okay.

MR. CORKRAN: Are we seeing new very large players in the distribution system? Have we seen a substantial consolidation of players?

I really want to get to this characterization of master distributors which I've seen in other industries like fittings, but I'm just again curious as to whether certain distributors are playing a larger role now than they have in the past.

MR. MAGNO: We have certainly seen this growth of master distributors, and we would look at it as a company that would typically buy large amounts of material, large amounts of in this particular case low-priced Chinese pipe, and then they take it, again as we said before. They have it in some sort of area inventory, and then they would resell it back into the distribution channel to other wholesalers.

Then there are some other wholesalers, which would have been the more traditional wholesalers, that would have imported it directly, taken it in and sold it to more of their end user customers like contractors, things like that.

I can say just generally the master distributors are more on the plumbing and heating side of the business and the industrial side of the business as opposed to fire protection or fencing.

MR. CORKRAN: Mr. Filetti, would you generally tend to agree with that in terms of Allied's experience, both the contention that there's an increasing role of master distributors and even to the extent that that is occurring though it is more focused on plumbing applications than fencing or fire control?

MR. FILETTI: Allied is mainly on the fencing and the sprinkler pipe side, which I would agree with Mr. Magno. On the plumbing side and mechanical side, I can't answer that.

MR. CORKRAN: Okay. I'm not trying to beat a dead horse here, but I still want to follow up some more on this master distributor issue and just the whole notion that it's an increasing role in the market.

Mr. Magno, you had indicated that these were distributors that were largely handling low-priced Chinese pipe. Are you describing a situation in which it's been the presence of low-priced Chinese pipe that is feeding the growth of these master distributors and that kind of goes back to Mr. Benedick's question of is essentially the presence of low-priced imports generating demand or creating demand separate and apart from the end use applications that Mr. Schagrin discussed?

MR. MAGNO: I'm not sure if I totally

understand your question.

MR. CORKRAN: Okay. My question is mainly are you trying to establish a direct link between the volume and price of the Chinese imports and the increasing role of master distributors in the U.S. market?

That is, is it the Chinese imports that's feeding that or does it work the other way around; master distributors are playing an increasing role and handling a larger volume of Chinese products?

MR. BARNES: This is Scott Barnes with IPSCO. I think the master distributors are playing an increasing role in selling the Chinese product. They're buying in larger volume and reselling to other smaller distributors and have greater resources I guess in order to buy in larger volume and can take larger shipments and things of that nature.

MR. CORKRAN: Okay. Mr. Magno, I'm going to keep picking on you, I guess, but I had another question mercifully away from the master distributor issue.

You had mentioned that Wheatland had established a foreign fighter program. Was that specifically geared towards Chinese product, or was that in general non U.S. pipe products?

MR. MAGNO: Two answers to that. It was geared to Chinese products because there were 650,000 tons of Chinese product which have flooded into our markets, so yes.

MR. CORKRAN: This question, and please forgive me if I butcher your last name. I apologize in advance for that possibility.

Mr. Lauzon, you gave a bit of a chronology of some of the corporate changes that Wheatland has undergone. I wonder if you could run through those changes again with a sense of when the timing of some of these occurred?

You mentioned Atlas, Sharon, Sawhill. Also if you could indicate in there as well when the Carlisle Group purchased John Maneely? If you could just kind of lay those out in sequence?

Then the last item is the picture of the destruction of the former Sawhill facility. If you could give an idea of when that was occurring?

MR. LAUZON: Armand Lauzon from the John Maneely Company.

Mr. Corkran, the Carlisle Group acquired John Maneely/Wheatland, one and the same, in March of 2006. I joined the company as a director, a board director, a director of the board, in March of 2006 after the acquisition.

Pete Dooner, who was the prior CEO, my predecessor, stepped down in August of 2006, and I took over as the CEO in August.

The Atlas Tube Company was brought into the family, so to speak, or brought into the company with a merger in December of 2006, and then the Sharon Tube entity joined the family as well in February of 2007.

The demolition of the Sawhill facility took place on or about -- it started in April/May of this year as well, '07.

MR. CORKRAN: And the assets of Sawhill Tubular, that actually predates this somewhat. I believe that's a 2002 transaction. Okay.

Having now looked at this chronology, I guess one of my questions would be from your testimony it appears that you attribute the demise of the Sawhill facilities to the subject imports, but looking through the chronology of events, given the amount of investment that the Carlisle Group made in the Wheatland facility and organization and the continuing consolidation, the additional purchases that were made, wouldn't an alternative explanation focus on essentially eliminating redundant capacity?

Believe me, I know there's a human element here, and I'm not attempting to downplay that, but just purely from a corporate standpoint doesn't it make sense that you're eliminating redundant capacity?

MR. LAUZON: As I said in my testimony, Mr. Corkran. This consolidation in this industry, we feel, is certainly going to be one of the survival tools to keep this industry flourishing. As mentioned, you know, the variable cost piece, a big piece of the variable cost is hot-rolled steel or metal. That is the biggest input item we have, or the biggest variable cost item we have that we purchase.

Being able to amass several companies together and increase that economy of scale on the purchasing side should afford us an advantage that will be able to help us compete against the Chinese threat. Now, with that said, you know, as a newcomer to this industry, I find it particularly challenging to be able to sell product today to be able to match Chines prices today in the market, and when I say that, it's that some of the pricing that I've seen, if not all of the pricing that I've seen come out of China is below our metal cost.

So today, you know, what we can buy metal for, they're selling finished product for the same price, finished product at what I pay for metal. So that's a particular challenge. With that said, to answer your question about consolidation, it touches back on the variable cost piece. You know, manufacturing utilization, equipment utilization, is the foundation behind our success. In many respects, it's the funding mechanism that keeps our businesses flourishing. And it puts us in a position where we can reduce our standard costs and our variable costs and get our hourly costs as low as we can, and you can measure that in a lot of different ways.

With that said, yes, we are going to be consolidating. We are going to consolidate operations. We call that synergies. We are going to capitalize on, you know, the economy of scale and the manufacturing synergies that exist within the three companies, and we'll continue to look at best practices to get our costs down as low as we can so we can compete and try to grab some of that 650,000 tons that we've lost.

So that's the impetus behind much of what we are doing right now. I hope I answered -- did I answer your question?

MR. CORKRAN: Yes, you did. That was very helpful.

MR. DORN: In terms of the timing of the

closing of that plant, I think there is one element that Mr. Magno was going to add.

MR. MAGNO: Mark Magno. I haven't been with John Maneely for 24 years. I was the pre-Carlisle Group also. That decision to close the Sawhill Tubular plant was done before Carlisle came into the picture, and it was done because we didn't have the volume to support that facility anymore after -- we actually held it, decided not to close it up until, waiting for the President's decision on the 421, and then when that didn't come through, the volume just wasn't there, so we ended up closing it, and that happened before Carlisle took ownership of the company.

MR. SCHAGRIN: I would just reiterate, Mr. Corkran, I think on the record of this investigation, and compared with the 421, that the closing and later destruction of what was Wheatland Tube's Sharon plant, the former Sawhill Tube plant, is entirely 100% caused by the imports from China. It had nothing to do with consolidation by the John Maneely Company or their merger with other companies.

The decision had been announced by Wheatland as early as September of 2005 in testimony before the Commission, that given the low operating rates at their facilities, that they would be forced to shut down a facility given the extremely high import levels from China. What happened after the negative 421 decision is that those imports increased even more, leading directly to the Wheatland decision to carry through and shut down that facility.

It's not like the, you know, closure of some facilities after the ISG Group was put together. It's completely different. It is all about the amount of imports from China affecting utilization rates and making it impossible to operate all the different facilities of just the old Wheatland, with nothing to do with the other mergers.

MR. LAUZON: Mr. Corkran, one more point on that. You know, again, I'm a newcomer to the industry, effectively just over a year, and the mathematics speak for themselves here. If you look at from 2002 to 2006, as I said in my testimony, we've seen a 6400% increase in China imports. 6400%. In my 28 years of making stuff in various different industries, I've never seen market share gain that quick in any industry. Now, I haven't been everywhere, but I certainly have got 28 years of gray hair on my head, and I can tell you I've never seen growth like that, point one.

Point two, the math is simple. If you hadn't have seen 10,000 tons go to 650,000 tons in four years, we wouldn't have had to close that plant. So without that import hit, we wouldn't have had to close that plant. And the math is straightforward.

MR. CORKRAN: Thank you. I appreciate all those responses. I wonder if you can elaborate a little bit, and also Ms. Hart as well, what was the, in terms of the physical assets of the facility, and in terms of the employees who had been workers at that plant, what happened with those?

MS. HART: I can speak to the workers. I know some of them have been -- they have tried to get them jobs at the other two facilities, but not all of them. Many of them are without jobs now, or on TAA, which is inadequate at best. And I think we could elaborate a little more thoroughly on numbers, but I have not an experiential knowledge, but a Washington, D.C.-based knowledge of what has happened. Thank you.

MR. LAUZON: In terms of the capital equipment that was in that factory, we retained it. It's been mothballed, if you will.

MR. CORKRAN: So it's been redistributed to the other --

MR. LAUZON: In some cases, we've been able to send some of that equipment to other locations, and in other cases, we've just retained it in storage.

MR. CORKRAN: Mr. Barnes, I wonder if you could elaborate a little bit more on the status of Newport. In general, when did Newport Steel get out of the standard pipe business? I know you said it was your, IPSCO's intention to bring them back into standard pipe. Has that taken place yet, or is that still more a hoped for event?

MR. BARNES: Scott Barnes with IPSCO. I can't recall the exact year when Newport went out of business on standard pipe. I'm going to say it was around the year 2000. I don't know, Mark, if you -- but some significant time period before we acquired it. And with respect to our intentions to make standard pipe there, we have begun to make standard pipe there, and began those operations, oh, in late March, as far as beginning to produce standard pipe products there.

MR. CORKRAN: Just to tie up a few loose ends, then, given when Newport --

MR. BARNES: The advantage for us at Wilder is that it makes this larger diameter size ring that we couldn't make in the US. Ten through 16-inch.

MR. CORKRAN: Just to tie up a few loose

ends, then, I just want to make sure, in terms of the Sawhill facility, it is the position of the Petitioners that that is attributable to the Chinese imports. Given the timing that Newport, even the rough timing of when Newport Steel exited standard pipe operations, I would not assume it is your position that it was the Chinese imports that led to that, and with respect to Allied Tube, there was testimony about the acquisition of additional plants, which you indicated that the best facilities, the best assets continue to be employed. Others were not.

Are you attributing those closures or those line closures to subject imports from China?

MR. FILETTI: Mr. Corkran, I'll make sure I understand -- this is Rick Filetti. I'll make sure I understand your question. Are you asking, have we shut down any of those facilities?

MR. CORKRAN: Sorry. To be specific, in 2001, I believe, the testimony was that you acquired Century Tube and you mothballed -- I wasn't sure about the exact time frame afterwards, but you mothballed inefficient mills. I just wanted to make sure that it was an operational decision to close those, rather than one that you attribute to the subject imports.

MR. FILETTI: I want to clarify. When we

acquired those businesses, we took mills that were inefficient -- we did two things. We took mills that were inefficient and we mothballed those mills. We also took their better mills and upgraded them, increased their efficiency through improved capital investment, upgrading their technologies and such. Today, we have not yet shut down any of those mills, but we are running them intermittently.

We don't run in Pine Bluff, Arkansas -- I'd rather answer some of the operational questions after, but generally, what we've been doing is we've had to dramatically reduce our shift loading since the surge of these imports. I mean, it's an incredible amount of tonnage that is coming into this country, and so what we're doing is we are trying to hang on for a decision and you know, and hopefully this Commission will see the plight that we have and we won't have to do any other things, but currently right now we've been curtailing operations on an intermittent basis, weekly basis, cutting back crews.

We're not running anywhere near the efficient production level at any of those facilities, so what we are doing today is we're waiting. You know, eventually management is going to look at me from a cash flow performance and say, what are you doing? Right, so we haven't yet got to that decision yet, but we are like inching towards it with big, large, giant steps, unless something is done to rectify this condition of these unfairly traded imports.

MR. BARNES: Mr. Corkran, Scott Barnes. With respect to Newport, and your asking a comparison with Sawhill. One is that there really, you can't compare the two, because Sawhill was a CW, a butt-welded producing facility, and the Newport facility is electric resistant welded. The other is, the size range is different. Sawhill went up through 4-inch. The facilities in Wilder go 4 through 16, so there's not really a lot of comparison.

And in respect to answering the question with regards to why they related to China, I can't speculate what the former management decision was on that one.

MR. SCHAGRIN: And Mr. Corkran, this is Roger Schagrin. I'm just going to add, in the Commission's sunset review determination at Table Circular I-11, there is a footnote that says that Newport ceased production in 2001, and that's obviously public, because I only have the public staff report, so that nails down when they stopped.

I think the point that Mr. Barnes made in his testimony is that, while Newport may have decided not to continue in the standard pipe business in their size range 4 to 16 inches, because they found it not to be a product that they wanted to pursue, IPSCO did say at the time that they purchased Newport that Newport was running its facilities at very low utilization rates as compared to IPSCO, and IPSCO saw benefits from the purchase of Newport of trying to increase those utilization rates by introducing the same products that IPSCO was making at its other facilities, and obviously freight savings.

If you've got a producer on the East Coast and you can supply it from Kentucky, that's closer than supplying them from Iowa. So the Chinese imports are having an impact now on the IPSCO Tubular including IPSCO Kentucky, but we're not alleging that they had any impact on the decision by Newport to cease production of standard pipe in 2001.

MR. DORN: Mr. Corkran, excuse me.

If there are no further questions for Ms. Hart, could she be excused to make another appointment?

MR. CARPENTER: Of course. Thank you for coming, Ms. Hart.

MR. DORN: Thank you for the indulgence. Thank you.

MR. CORKRAN: I know it seems like I'm continuing to drag out a very long point here, and at the risk of saying something that may sound a little bit harsh, I do kind of want to get to this because it really seems to get to the point of what is being attributed to the subject imports. If one were to argue that the acquisition by Wheatland of the only other major continuous welded producer in the standard pipe product category would ultimately inevitably lead to the type of capacity reductions and that the ultimate closure of one of the two operations was inevitable, I mean, how would you respond to that?

I mean, is it truly attributable to the subject imports or is it the logical outcome of the business decisions that began with consolidating different producers?

MR. DORN: If I could just interject from a legal perspective here, I mean, you know, business decisions are made on the facts, and one fact, as Mr. Lauzon has testified to and the others, is this huge increase in imports from China. You cannot ignore that in addressing any of the business decisions we are talking about.

And keep in mind that one of the statutory factors that the Commission is supposed to consider is growth, ability to grow. You know, this is an industry that should have been growing in a period of increasing demand, and we're doing the opposite. And you cannot just say that, you know, an after-the-fact decision, well, we're going to close a factory because we've lost market share and there's not enough production, I mean, that's a business decision based on the facts, and the facts are that the lost market share and the lost production and the underutilized facilities are due to the 650,000 tons of imports from China. That's our position.

MR. MAGNO: Mark Magno with Wheatland. We invested at least $25,000,000 into the facility, so our intent was not to buy it and to, quote, 'take a competitor out of the business and consolidate it.' We were there to grow it. It gave us great operational efficiencies having two facilities just, you know, within, you know, three miles of each other, so it had great possibilities for us. That's why we invested the $25,000,000.

MR. SCHAGRIN: And I can just add, Mr. Corkran, obviously sometimes competitors buy others in order to shut down the capacity and that's, you know, allowed. That's a good business strategy under certain conditions. But no one who buys another business to shut it down in order to remove capacity from the market buys it and then puts $25,000,000 into it in two years before they shut it down.

If you're going to do that, we might as well have a bonfire and, you know, everybody from John Maneely and Carlisle, and I'll bring some money too. We can all just burn money right outside, you know, the front of the Commission. That, there is no rational business sense in buying a facility, putting $25,000,000 into it, and then shutting it down. So I just don't think that that dog can hunt.

I mean, I understand your question, but it's just not rational business behavior. It's not rational human behavior to do that. There is no question in my mind, having participated in representing, you know, both Wheatland and Sawhill for many years that that Sawhill facility was shut down because of the increase in Chinese imports. Period, full stop, no other possible explanation at all.

MR. CORKRAN: Okay. Mr. Schagrin, let me take you up on your offer to expand on the proposition that the Commission should penalize Chinese for reporting that took place a couple of years ago. I mean, certainly one of the questions that I will ask this afternoon is, what may have changed to make those projections different from the import data that we see at present?

So, I mean, I certainly am aware of the differences that you've pointed out, but what is your suggestion in terms of penalizing? I mean, obviously, we treat all questionnaire respondents the same. That is, we scrutinize their data and we make sure that the data are rational. So let me just ask you to expand on your proposition.

MR. SCHAGRIN: I'll expand on the proposition. I think the Commission would like to treat all responses, and I think in fact, domestic producers do get treated somewhat more harshly than foreign producers because, generally, our largest producers get verified and the Commission very rarely, regardless of how nonsensical the data, ever verifies a foreign producer questionnaire.

But my best example of the Commission, in terms of their own opinion, saying, we don't like having been told a story or fibbed to, is a case involving light-walled rectangular tubing from Taiwan back in 1984. The domestic industry had filed cases and during the pendency of the case, President Reagan instituted the VRA program on steel products, but of course at the time, for political reasons, even though Taiwan wanted a VRA, like Korea had, like Japan had -- Japan and Korea may not have wanted them but they got them -- the United States government decided, because of China, even though they weren't a steel producer, we can't do a VRA with Taiwan. We don't recognize Taiwan in that way, diplomatically, in order to give them the VRA.

But the Taiwanese came into the Commission and said, you know, you don't have to worry about increased exports when you look at threat of injury because the government of Taiwan has imposed its own non-negotiated restraint on exports of steel products to the United States, including the subject product, light-walled rectangular tubing. So we, the government of Taiwan, can assure the USITC that these exports from Taiwan are going to be limited to a certain amount.

Within six months after the Commission negative determination, imports from Taiwan surged to levels that were two or three times the levels of the previous case. Within six, nine, twelve months, we brought a new case, and we came to the Commission and said, can you believe what happened here? You know, the Taiwanese producers and the government of Taiwan said that these exports were going to be restrained and that exports to the United States would be decreasing, not increasing, similar to this case.

In the 421 case, the government of China, the same lawyers who are representing the Chinese today, representing the Chinese two years ago they had a different law firm name, but they are the same lawyers. I recognize them. And they said, our clients are certifying to this Commission that our exports to the United States are going to decline in the absence of an affirmative determination by the Commission or in the absence of relief from the President.

Now, what are they going to say today when you rake them over the coals? Oh, we didn't know demand in the United States was going to increase so much. They needed us. Oh, the US industry couldn't satisfy demand. My God, look at our utilization rates. I mean, there's nothing they can say. I'm sure they've been thinking about this for weeks. How are we going to explain to the Commission? We said our exports would decrease by 30%, and instead they increased by 140%.

So, you know, the Commission didn't say in that Taiwanese determination, oh, we're making our affirmative determination, because. They still had to go through the statutory factors, but, and I'll try to elucidate this in the post-hearing brief, it was clear from the Commission determination the six Commissioners, who were the same as the previous case, were really unhappy that they had to go through a new case because the respondents had told the Commission one thing and exactly the opposite had happened.

MR. CORKRAN: I appreciate that. I would note from having looked at some flat-rolled cases that sometimes it may prove difficult to project out what's going to happen in six months. I've seen certain characterizations and projections even in a much shorter time period than two years be dramatically wrong, but I will be interested in hearing comments this afternoon as well on this issue.

And in fact, with that, that does in fact end my questions. But I would like to thank you all very much for the time that you put in this morning. Thank you.

MR. CARPENTER: Thank you.

I have a couple questions also. First, there was, just looking at our preliminary data, it looks like demand for this product in the United

States was somewhat flat from 2004 to 2005, and then there were significant increases in 2006 and the first quarter of 2007, consistent with your testimony. I'm interested in the components of that increase in demand. Is it tied primarily to increases in nonresidential construction as opposed to residential construction, and also, what do you see happening for the remainder of this year in those areas?

MR. MAGNO: This is Mark Magno with Wheatland Tube. Yes, our products are tied to nonresidential construction. There is very little of our product that goes into residential construction. It's primarily nonresidential construction, and the overall demand for our product, not the demand that we're seeing for the domestic product, but the overall demand for our product continues to be very good. We're not sure how long that's going to last.

I mean, we're in a period of very good nonresidential construction growth, and we're seeing the results to our business, you know, during an expanding period. We are just, you know, it's incredible to what will happen if we are in a period where the overall demand starts to decline, but clearly right now the overall demand is good. Our customers report that they are busy. The industries, the contractors, everyone in that group is busy, just not the domestic industry.

MR. CARPENTER: Okay.

MR. FILETTI: Mr. Carpenter, my name is Rick Filetti. I might comment on that also. Business is very good. Nonresidential construction is the leading venue or market indicator of what happens to our products as far as demand. There's a lot of construction out there. There's a lot of things that are very solid in the economy today, and you know, with Mr. Magno's comments, it is kind of scary if the economy starts going down or demand, what would happen to these products.

But to answer the question you had on what do we see in the future, you can only look at what we see from GDP projections, and those seem to be very strong. There seems like, I think, the economy seems to be getting stronger and such, so from my perspective, if those things are true, then nonresidential will be stronger. But my fear is that if they just stay the same or if they go down, China will have more products dumped into this country, and if it goes up, we won't get the growth share because we're not getting the growth share now. And that's our concern.

MR. CARPENTER: I understand. Any others?

MR. BARNES: Scott Barnes with IPSCO. We tend to look at the overall GDP to track what we think is going to happen to the standard pipe side of the business, and certainly there was a little bit of a weakening in the GDP in the first half of the year, and we've seen that to some degree with the, at least in our business, with the standard pipe side. We are hopeful that the market will pick up.

We see public sector nonresidential construction being more active than the private sector. I think with the, you know, weakening in the overall economy, the private funds have been put on hold. We hear about projects that are yet to be let still, and, you know, are going to come up here in the future, but we haven't seen a lot of that yet.

And the issue of course is, as what these other fellows have talked about, is that we are going after a smaller piece of the total market right now because the Chinese have taken such a big chunk out of the overall total market, and we'd like to get that rectified.

MR. CARPENTER: All right. Thank you.

My other question relates to a couple comments that were made in your testimony this morning. First, Mr. Schagrin, you described this product as a fungible commodity product. Secondly, if I heard correctly, I thought there was some testimony that the Chinese product was underselling the US product by approximately 30%. My question is, I wonder if you could help me understand, if this is a fungible commodity product, why the importers of the Chinese product would see the need to price their product so significantly below the domestic product in order to make sales.

For example, are there significant non-price factors at play here, and if so, can you comment on what those might be?

MR. SCHAGRIN: First, I don't think there are any significant non-price factors in this market. Second, I think this issue isn't particular to this case. I remember a *Business Week* front page article maybe about two years ago, and it was a giant headline, 'The China Price,' and they were talking about economy-wide, how whether it's auto parts, steel, tires, anything that could come before this Commission -- throw in something on coated paper, I don't know where the margins of underselling are there, but -- that the Chinese just routinely sell even commodity products at 30, 40, 50% less than US prices. I think they do it in Europe as well.

My answer for that is, they fundamentally have a different economic system than we do. It's called Communism, and they are focused on getting the number of workers who are moving from these agrarian areas, which total hundreds of millions, moving into cities, and they want them to be employed, not out raising trouble or threatening the Communist government in power there. So they are focused on production units, much as the Russians used to be in the USSR. You know, they had production targets.

And I would say, any country that still puts out five-year plans -- and Mr. Kaplan alluded to it in his testimony, they had a five-year plan for steel. We want production to be X in five years, and the government will do anything to support that. They are not focused on the prices their products are being sold at. They are focused on hitting production targets and keeping people employed.

So the fact that they are willing to sell a commodity product at 30, 40, 50% under the market in product after product, I think, relates to that kind of system. I don't know, you know, whether the master distributors or other distributors are leaving all that money on the table. They may be getting a nice, or the trading companies, I guess you will hear from a trading company later this morning, I think these people are doing very well.

I have some friends who do trading with the Chinese and their net worths are in the hundreds of millions of dollars. They say to me, you know, you are a smart guy. Why don't you do what I do and make the big bucks, and just sell all these Chinese products in the US? There's no end to how much you can sell from China because the prices are low. Why do you keep struggling trying to keep domestic businesses open? I say, well, that's what I choose to do.

But a lot of these trading company folks are making enormous fortunes by selling huge amounts of Chinese products at well below any US prices.

MR. MAGNO: This is Mark Magno from Wheatland. One of the things that our customers tell us repeatedly, and with the dramatic increase of imports, this practice has accelerated, and that's that there is intense competition among the traders and sellers of Chinese goods against other Chinese products, and that certainly has an effect on the pricing.

MR. CARPENTER: I see. Okay. That's an

interesting point. Thank you.

MR. KAPLAN: Mr. Carpenter, if I could -- Gil Kaplan -- if I could just raise one point, and it really goes to the subsidy issue. We've heard from industry after industry what I think Mr. Barnes or someone mentioned, that they are seeing product coming into the United States for less than the cost of the inputs of the product in the United States. In other words, the price of pipe coming into the United States is less than the cost of hot-rolled sheet.

And how does that happen in industry after industry? It's not just a phenomenon in the pipe industry. We see this in many industries who talk to us. It's because of the subsidies, and it's why the subsidy application to China is so important. What you have here is a seriously undervalued currency which is helping the Chinese keep their prices very, very low. You have policy loans to Chinese producers which make their cost of putting in equipment and building plants very, very low.

You have low cost steel inputs which are subsidized by the government, so their costs are lower in that respect, and you have at least three specific export benefits to the pipe industry that we've discussed. You have this VAT rebate, you have an export tax which is applicable to other steel products but not to pipe, and you have a license system which applies to other steel products coming out of China but not to pipe.

So you have all this economic energy, in effect, being siphoned into the pipe sector, so for them, it doesn't really matter if the prices are 40% below. They are not feeling the underlying costs because of these subsidies.

MR. CARPENTER: Okay, thank you. Thank you very much. Any other -- Mr. Corkran?

MR. CORKRAN: I'm sorry, this is not a question that will require a response right now, but just for your post-conference briefs, would you please address the question of, with respect to imports, any adjustments made to the Canadian imports, what value data should be used for those adjustments?

Secondly, at least in the original petition, the 2007 interim data from StatCan were for January, February, with a projection for March. If March 2007 data are now available, could you update those data? Thank you.

MR. CARPENTER: Thank you.

Any other questions?

(No response.)

MR. CARPENTER: Okay. I was just pondering the thought as to whether we should break for lunch or continue on.

MR. DORN: Let's move on, Mr. Carpenter. I'm just concerned about some of our folks and the airline transit.

MR. CARPENTER: Okay. Do Respondents have any particular strong feelings one way or the other? Okay, well, why don't we continue then.

Thank you very much, panel for coming here today and your presentation, your answers to our questions. We very much appreciate it. We'll take just a short five to ten-minute break, and then we'll resume with the Respondents. Thank you.

(Whereupon, a short recess was taken.)

MR. CARPENTER: If everyone would take a seat, we'll resume the conference at this point.

Please proceed whenever you're ready.

MR. DURLING: Thank you, Mr. Carpenter; thank you Staff. It's good to be back here.

For the record, my name is James Durling from Vinson & Elkins, here on behalf of the Chinese producers and exporters in this case.

If we could go to the first slide, please.

The way we're going to conduct our

presentation is: First, you'll hear from an industry expert who will address some issues of the market dynamics. Then, you'll hear from me giving kind of a short presentation on the two key issues: whether there is current injury; and whether there is a threat of injury from Chinese imports in this case.

With that, I'll turn the floor over to Scott Schmidt from Western International.

MR. SCHMID: Hello, my name is Scott Schmid. I am the Steel Division Manager at Western International Forest Products in Portland, Oregon, which is part of Four City Trading Group.

I am proud to be an importer of steel into the United States; and I am proud to be the supporter of our domestic steel producers. I have been importing and trading steel pipe since 1977, and opened the steel division at Western International in 1986.

In the last thirty years, I have imported steel pipe from Brazil, China, Indonesia, Japan, Singapore, South Africa, South Korea, Spain, Taiwan, Thailand, Turkey and Venezuela. I continue to maintain relationships with steel mills in several of these countries, and expect import from many of them again the future.

In the past years, we have had the gracious support of domestic suppliers as well. It is difficult to challenge domestic mills that have supported us in the past years, but we do not believe the Chinese importers comprise a threat to their well-being.

You've heard the domestic mills' reception of the Chinese imports, and how those imports are taking sales from the domestic mills. It is our experience that, for the majority of our import steel pipe, is simply not the case. We are importing products that are either not available to our customers domestically, or logistics make them price prohibitive, or there is insufficient domestic supply to satisfy the demand in the U. S. market.

For example, we import a significant amount of waterwheel casing for customers in Washington state, Oregon, Idaho and Montana. We used to source that product from Northwest Pipe in Portland, Oregon. Over a period of a decade, from 1992 until 2003, we jointly developed a low-customer following based on quality and service that was second to none.

However, at the end of 2003, Northwest Pipe idled the Portland facility because they could not obtain hot-rolled coil steel to make the waterwheel casing. Let me add that their decision had much more to do with the availability of competitive raw material than foreign competition.

I was a good customer of Northwest Pipe and they a good supplier of mine. To this day, customers express disappointment in the loss of supply from Northwest Pipe's Portland facility. This put Western International in a difficult position because the next closest domestic producer of waterwheel Casing was IPSCO in Iowa, a good 1,500 miles away. Not only was the distance between IPSCO and our customers quite far, but also IPSCO did not want to make waterwheel casing in any meaningful quantity.

We have tried to do business with IPSCO many times with the help of Scott Barnes and Debbie Hill in the '90s and early 2000s. We were constantly frustrated to find that product was only available if OCTG was slow. Since early 2004, IPSCO had preferred to focus the majority of their efforts on the more profitable OCTG market.

Thus, Western International turned to Chinese producers to supply our customers' demand for waterwheel casings. We had previously supplied domestic material, but it was no longer available in the market in which we were selling.

Another example of the domestic mills' inability to supply demand in the U. S. market relates to galvanized product. To our knowledge, only one mill, Wheatland Tube in the east, makes meaningful quantities of hot-dipped galvanized pipe for structural and mechanical applications.

Thus, most of this product does, and has for a long time, come from off shore. The product is not made in larger quantities in the United States because of environmental issues related to the use of zinc. This is not expected to change and has resulted in chronic shortages of products in the U. S. market.

Wheatland Tube simply does not have the capacity to meet the demand of the U. S. market for this galvanized pipe. The shortage of galvanized pipe has been particularly acute in areas of the United States to which Wheatland ships very small quantities, like our market in the West Coast.

Domestic producers maintain that they have a replacement product for ASTM A-53 (a), hot-dipped galvanized pipe, but our experience does not bear that out. We have customers whose product specifications require stricter standards of ASTM A-53(a) hot-dipped galvanized product.

For example, if a customer needs to connect his house to a waterwell submersible pump, he is required, by code, to use the hot-dipped galvanized A-53 (a). It has a thicker wall and a thicker zinc coat in the product than most domestics make. The fact that the galvanized process, used by domestic producers, will not fit all applications is further evidenced by the reality that many customers stock both import and domestic galvanized pipes.

Also, we know that Allied Tube & Conduit, the premier U. S. producer of fence tubing, sprinkler pipe and conduit, themselves purchased import hot-dipped galvanized pipes and finishing into UL-6 electrical conduit pipes. These pipes are used when a stricter standard is required than Allied's sources can meet.

Examples would be: when the pipe is buried, and used in certain factories, warehouses, or commercial applications. Allied sources this product offshore because the underwriter laboratory does not approve Allied's process for UL-6, which has a stable and commercial construction.

Without imports of weld casing and hot-dipped galvanized pipe for structural and mechanical applications, the U. S. industries, in which our customers operate, would not have the product they need. One factor to consider when thinking about the ability of domestic mills to supply product, particularly to the West Coast, is: the large price differential between ocean shipping and overland trucking.

We can ship a truckload of product from China to Los Angeles for $1,800.00. The same truckload shipped overland from the midwest, or East Coast, would cost approximately $3,000.00 to $4,000.00. Thus, even when domestic mills can make certain products, they cannot always ship it to the West Coast on a cost-effective basis.

Another factor to consider with respect to imports is: the lead time. My counsel mentioned that a previous ITC report, regarding a prior case on Chinese pipe, stated that there was a ninety-day lag time for imports from China. That is absolutely not true in our experience. We can provide documentation that shows that an average lag time for our shipments in the last few months has been six months. We have always planned on at least six months between the customers' purchase order date and shipment to the customer.

By the way, more recently this has turned into eight months because of difficulty in lining up shipping; and 75% of our sales of imported products are back-to-back sales that we fulfill based on customer order. Thus, when you look at the import statistics and average unit value, you have to remember that those statistics show sales made six months prior to the time of the import's arrival.

Given this lead time, there is a natural discount that the Chinese must offer to even be in the U. S. market. We estimate this discount has a threshold of 20%. If the price for Chinese pipe is not at least 20% lower than the domestic pipe, our customers, that have domestic product available to them, would prefer to buy domestic pipe.

I also would like to discuss my view of the impact of these cases on domestic suppliers. While the domestic suppliers might see a small short-term benefit in terms of higher prices, I do not expect those prices to stick. The simple fact is that there are many, many countries around the world that produce standard steel pipe, and there are always new countries emerging.

At the beginning of my comments today, I mentioned all of the countries from which I have imported steel pipe in the last thirty years. We will again negotiate with mills from countries, and perhaps other countries, for pipe products to import into the United States.

The fact is: We have many customers who do not care about the origin of the pipe we sell them, as long as it meets their standards. We call these customers: spread-sheet buyers, meaning that they go out and get quotes from every potential supplier, spreadsheet the quotes, and simply pick the supplier with the lowest price.

These customers will be happy to accept pipe from any import source available. In sum, we know that we can supply from many other countries, and expect the price will be comparable to current Chinese pipe prices. In my experience, history has shown that import sources may change, but that imports will continue to come into the market. We are, and will continue to negotiate with other foreign sources of supply to satisfy our customers.

Finally, my counsel told me that you want to also consider future market conditions. In early May, the Chinese government announced that it was going to remove the VAT-rebate on pipe from China effective July 1st. This will result in an immediate and dramatic increase in the price of 13%.

In fact, we had one of our suppliers cancel orders to be negotiated to raise the price. This effective price increase will make the U. S. market less attractive for Chinese suppliers, and will result in fewer shipments of Chinese pipe to the United States at higher prices.

Thank you for taking the time to hear my views today. I am happy to answer any questions.

MR. DURLING: Hello, I'm Jim Durling with Vinson & Elkins. I think it's helpful that we now have a chance to step back and to not focus so much on the individual particular stories of individual companies.

Because, in any industry, you are going to have individual companies that have different experiences, sometimes they're having good luck, sometimes they're having bad luck; sometimes they're made good decisions, sometimes they're made bad decisions.

That's the beauty of the Commission's approach of considering the industry as a whole. You've recognized that individual companies may have individual stories that vary, but you look at the industry as a whole, and that is the basis on which you make your decisions. So, we're going to focus our presentation on the industry as a whole.

Normally, we would start by discussing volume and price effects, that's the order the statute raises the factors. But I have to say: The single most dramatic fact in this case is the unbelievable profitability of the industry. So I'm going to begin the presentation with the profitability, and then work backwards, and show you the price trends and the volume trends that have made that phenomenal profitability possible.

Next slide please.

Let's start with gross profits per ton, which, in a sense, is a good measure because if there were an adverse price effect, or an adverse volume effect, one would expect to see some evidence of that in the gross profit per ton.

Yet, when you look at the domestic industry, and compare the current experience with the most recent past, it's breathtaking how profitable this industry has been, especially when you consider that in 2001, 2002 and 2003 these were profit levels when the industry was substantially protected by Section 201 relief.

So, a heavily protected industry, under Section 201 relief, has gross profit per ton in the $75.00 range. The import protection is lifted. And because of market conditions, the price increases, their gross profits per ton surged to unprecedented levels. This industry has never made as much money on a per-ton basis as it has over the period of investigation.

Now, if we turn to the next slide, we can see: Operating Profits Per Ton, which tells the same story. The average, when the industry was protected, was about $32.00 per ton. The average over the period of investigation is: about $85.00 per ton, an extremely high level, higher than historical experience, and stable at a relatively high level.

Earlier this morning, you heard Mr. Dorn tell you that his slide of increasing imports, that was Petitioner's lawyer's dream slide; well, from the Respondent's lawyer perspective, this is our dream slide. This is an industry that is making so much money on such a sustained basis, that it's hard to see how this industry can claim to be injured.

That's why, I suspect, you heard so little, and you saw no slides this morning, about the overall financial performance of this industry.

The next slide shows Operating Income as a Percent of Sales, which, again, tells the same basic story. When the industry was protected, they were averaging about 5.8%, roughly 6% operating profits as a percent of sales. That surged on average to 9-1/2% during this period, and has remained at a very high level, consistent with historical norms.

Next slide please.

Where does that leave us? By any measure, this industry has been extremely profitable during the period, and has remained extremely profitable. They had particularly strong gross profits per ton, which reflect the very strong prices in this industry, which I'll come back to in a few minutes.

It's important to realize that the operating-income percentages in this case actually are understating the profits. They're at historical levels, right. The most recent period has an operating profit of about 6%, which is pretty good for an industrial product.

But that actually understates the true profitability because that's percent is off sales value. Prices have skyrocketed, and that's why, in this case, the dollar-per-ton is actually a better measure of how profitable the industry is; because, if you have a product and you're selling it for $100.00 and you make a $10,00.00 profit, that's a 10% profit margin.

If the price of that product goes up to $200.00, and you're making a $15.00 profit, the percentage may have fallen, but you've gone from $10.00-a-ton profit to $15.00-a-ton profit. You're actually operating on a more profitable basis, and the percentage is just depressed somewhat because of the dramatic increase in the price, which is precisely why, in its normal practice, the Commission collects and reports data on both a percentage basis and a per-ton basis so you can capture this effect.

So I'm just saying that, in this case, I think the Commission's data on per-ton profit is actually a better measure of what's happening in this industry. Taken as a whole, measured on either a per-ton basis, or a percentage basis, it's hard to see how this industry can claim to be injured.

Next: Volume.

What you heard this morning was almost entirely a volume case. But it wasn't a volume case in that they lost production because, when the data is tabulated, what you'll see, in general terms, are production levels and shipment levels for the industry as a whole, not individual companies, individual companies may go up and down; but for the industry, as a whole, the overall production and shipments have been roughly comparable over the period.

And the domestic industry, as a whole, has been operating at its historic levels of capacity utilization. It's important to remember these companies produce multiple products. Your questionnaire data shows that they produce multiple products, and they're been making product choices during the period.

That's fine. They're entitled to do that, as business people. But when they make a conscious choice to produce more of certain products and to maintain stable production of a particular product, like standard pipe, that's fine.

They're entitled to make that decision, and they have been making those decisions. They've been maximizing their total profitability by producing those products where they think they can earn the best returns. For the portion of their business that they allocated to standard pipe, they've done phenomenally well.

What does that tell you about how much money they've been able to make on the other products that they've been shifting their emphasis to?

They have a base level, an extreme high level of profitability for standard pipe; and, if on the margin, they've shifted some of their standard pipe to higher priced, higher profitability, that's fine, but that's not injury.

Most of which you heard this morning was about the volume of imports from China. We recognize that the imports form China have grown over the period. We also recognize that no one's projections are ever perfect, circumstances change, and that markets have a tendency to kind of do their thing, and no one can predict, with perfect foresight, what's going to happen in a market.

What I can say is: The presentation you heard this morning was a particularly distorted way to look at the imports from China for a couple of reasons. The first is: They go back to a period in time when Chinese imports were shut out of the U. S. market entirely by Section 201 relief.

So the fact that you see this dramatic surge happening over this period of time will, yes, if you pick a period of time where imports from China are zero, yes, you can show very dramatic percentage increases. So some of the growth has simply been China returning to the market; some of the growth has also been a function of the incredibly strong market in 2006.

You heard some testimony about that this morning. I'll show you some slides about just how strong demand has been in the 2006-2007 period.

And part of it is the Chinese produce a full range of products, unlike the domestic industry, where there are a limited number of producers of galvanized pipe, they're some that produce galvanized pipe but it's a more limited number. The Chinese produce a full range of standard-pipe products, and that has helped them grow somewhat as well.

Next slide please.

But, the other thing that they completely miss, in doing their simple year-over-year comparisons, is: What has, in fact, been happening over the most recent period of time?

We acknowledge that imports from China in 2006 were, in fact, at record levels. But, at the same time, they have to acknowledge, because the import stats are indisputable, that in the past two quarters, we have seen imports from China coming down from that peak level.

So it's not the case that Chinese imports have been going up with this inexorable increase with no end in sight. In fact, there has already been a downturn in the level of Chinese imports.

Now, we come to prices. I wanted to start my discussion of prices by first just putting them in historical context. This first slide is basically data entirely from the Commission's recent Sunset determination.

What the slide shows is a couple of key points. The first is that the prices of standard pipe, even though there may be different individual products, the price trends tend to be pretty similar. So when you have a price trend for one standard-pipe item, more or less, it's going to give you a very similar trend for the other standard-pipe items.

The other thing that's important about the history of pricing in this industry -- again, this is consistent with what you heard this morning is: because hot-rolled steel is such a large part of the total cost of pipe, the testimony you heard this morning was about 80%, that's roughly our understanding as well.

Because of that incredibly high percentage, standard-pipe prices, and hot-rolled prices, have a very close relationship. What this historical information from the Commission's recent case shows is that hot-rolled prices, and standard-pipe prices, were at a certain level through the period of the Section

201 relief. But there was a dramatic change in the market in 2004, and hot-rolled prices spiked and standard-pipe prices spiked.

But what's interesting, what you see for the period 2004-2005 is that, as hot-rolled prices began to fall, the gap between standard-pipe prices and hot-rolled prices began to grow a bit as the prices went up a lot faster than they came down when the underlining costs began to change. That's fundamentally what has been driving the extreme profitability of this industry during the period of investigation.

So, if we go to the next slide, what we do is extend the prior picture; and basically add the missing year of information from the data the Commission has collected in this investigation. Again, you can see that the old data that you collected, and the new data that you've collected, track almost dead on.

So we're just kind of extending a standard-price trend over time, and what you see is that the prices have remained very high relative to the price of their most important import item.

What's dramatic is that the average for the three years prior to this period of investigation, the average mark-up over hot-rolled steel was about $154.00 per ton. The average mark-up, over the period of investigation in this case, is almost twice that level: $293.00 per ton, that average mark-up.

When your mark-up, over your single most important cost item, is that dramatic, you, not surprisingly, see substantial improvements in the profitability. And that's exactly what you saw in this case.

So where does that leave us?

I think the key points on pricing are: that, over the period, domestic prices have trended up; and they're up sharply from the beginning of 2004. We see that prices have remained well above historical levels; and well above costs, which has been the key factor in allowing the domestic industry to earn such high levels of profit.

We see that the standard-pipe prices have tracked the hot-rolled prices. And because the gap between standard-pipe price and hot-rolled price is still so large, it is still so much larger than the historical average, the industry is going to continue to be profitable for the foreseeable future.

Now, China: There has been a lot of Chinese volume, but you can't get relief under these statutes simply based on volume. It's not enough to show that the Chinese have increased their imports, you have to show that the imports have had adverse price effects, adverse volume effects, and have had an adverse impact on the domestic industry.

When you actually look at the relationship of the Chinese prices and volumes, and the performance of the domestic industry, you'll see that there is no relationship. For example, let's look at the prices of imports from China.

Here, what we've plotted are the AUVs for the comparable Chinese products picking an individual HTS number that corresponds to the particular pricing product. What it shows is very interesting.

Yes, there's been substantial underselling. That's always been the case. It's always been the case, as long as there have been imports and as long as there's been a domestic production of standard pipe.

The key point is: What, if anything, is changing over the period?

We have substantial underselling. All we see is relatively stable Chinese prices, at the same time that the domestic industry, twice during this period of investigation, was able to substantially build their average price above the price of the Chinese imports.

Now, that suggests very strongly, and the Commission has found, on many occasions, that when the domestic industry can raise their price relative to the import price, that's strong evidence that there are other forces at play in this market; and that the import prices are not having an adverse price effect on the domestic prices.

You see a bit of a drop off at the end of the period, but that correlates with the drop in the price of hot-rolled steel. You'll notice that the price of the Chinese imports isn't changing at all. The domestic standard-pipe price is responding to changes in the hot-rolled price. There is no correlation with the import prices from China.

So the import underselling, yes, it existed in this case, but is not having adverse effects. It did not matter. The imports always undersell the domestic products for the reasons that you heard from the industry witnesses; and for the reasons that you've heard in countless cases involving steel products. When domestic prices can increase, even with the underselling, that underselling is not having a significant impact.

The same thing with the import volume from China: Again, we're looking at the price of the domestic industry; and we see that as the Chinese volume is trending up, even in the face of increasing Chinese imports, the domestic price trend has generally been up.

And notice that the one time there's a bit of a drop recently, where the domestic industry was not able to sustain indefinitely this huge gap that had grown between the price of hot-rolled steel, the input, and the price of the down-streamed product, the standard pipe, the gap had gotten so large that, by the fourth quarter of 2006, the gap was the largest it had ever been.

So, in the first quarter, the gap began to close. It couldn't just keep growing forever. That gap began to close, and that was at a time when the Chinese import tonnage was going down, not increasing. It was going down for two consecutive quarters.

Next slide please.

When you pull that together, what you see is: Whether you're looking at the gross-profit per ton, or the operating-profit per ton, the domestic industry thrived, even in the face of the increasing Chinese tonnage.

So, this morning, you heard time and time again about 2006, and: Oh, my God, how could we possibly survive under the onslaught of 650,000 tons of Chinese pipe?

Well, with all due respect, whether measured by gross-profit or operating-profit per ton, 2006, even with all of those Chinese imports, that was the best year this industry has ever had on a consolidated, aggregate industry-as-a-whole basis. The best year they have ever had, and that is not a case of injury.

Let me just conclude by reiterating that by every conceivable measure, this industry has been incredibly profitable. Prices have been at record levels, both absolutely and relative to the price of hot-rolled steel, and you can look at the trends and see that the imports from China have had no effect on either the prices or the profits of this domestic industry.

Because when prices and profits peaked in 2006, that's when they were complaining the most about the volume of Chinese imports, which have gone down since that peak level in 2006.

You also heard this morning that this case is a slam dunk, current injury, no possibility of the

Commission making the error of going to threat. Well, with all due respect, with profitability at that level, I think the Commission may well want to look at threat. But, even if you look at the threat-of-injury, you'll see that the statutory indicia have not been met, and that the industry is still doing quite well.

So let's focus on 2006 and 2007, and let's look at what's actually been happening in the industry most recently. First: Domestic profits have remained extremely strong by historical levels. Whether you're looking at the full year 2006, or whether you're looking at the first quarter of 2007, the domestic operating-profit per ton is well above the historical level.

In fact, even after the decline in the first quarter of 2007, at $56.00 per ton, the operating-profit per ton is almost twice the historical average, twice the profitability they were able to earn when they were protected by Section 201 tariffs.

How can that possibly be an indicia that this industry is facing imminent financial peril when they continue to have profit margins that are so high relative to their historic levels?

Their case, basically, seems to be: We were able to raise our prices to unprecedented levels; we were able to raise our rices to unprecedented levels, and now we're entitled, by statute, to never ever have to suffer decline in our prices and profit.

Well, I'm sorry, that's not the way markets work, that's not the way trade statutes work. They're entitled to relief, if they are suffering injury, or if they are facing an imminent threat of injury; and $56.00-a-ton is not an imminent threat of injury.

If we look at domestic prices, we see the same pattern: If we focus just on 2006, and the first quarter of 2007, you can see that they've built a substantial gap over the cost of their key input.

If we look at 2004 and 2005, the average mark-up over hot-rolled steel prices was about $257.00 a ton. In 2006, and continuing in 2007, the average mark-up is at $350.00 a ton.

So, even with the slight price decline in the first quarter of 2007, they still have a mark-up over the basic cost of hot-rolled steel that is at record levels. It's higher than the period prior to the period of investigation; it's higher to the first two years of the period of investigation; it is at an extremely high and comfortable level. These are not prices that are at a level that are going to pose an imminent threat of injury to this industry.

And the domestic shipments remain strong in 2007. They're up in early in 2007. The industry continues to make product choices, so that different companies are making differing choices. Different companies are maximizing their own individual experience making different choices, but the industry, as a whole, is up somewhat.

The broader context is that: In 2006 and 2007, demand has been very strong. I think this is interesting. This slide basically shows non-residential construction adjusted on a real basis. So these are nominal increases; these are real increases. What you'll see is a dramatic increase on a real basis, beginning in sort of the second half of 2006, and trending up very strongly.

During the period of time when they claim to be threatened, they are, in fact, facing very strong demand, which will help support prices and support them shipping whatever tonnage of standard pipe they choose to ship, given the other product choices they want to make.

At the same time, in the face of record profits, strong prices, increasing domestic shipments, very strong overall demand for their business, in the same environment, we see that over the most recent period of time, Chinese imports have been decreasing. You will not get a complete picture of the dynamics in this market, if you simply do year-over-year comparisons, because there has been a shift in 2006, and we see that the level of Chinese imports have begun to trend down.

When you plot that trend, whether it's Chinese average prices, which are the lines on the bottom part of the slide, or the Chinese tonnage, which are the bars, Chinese prices have been relatively stable. Chinese volumes have been going down, and the domestic prices are remaining at historically high levels. So this is not a case of an imminent threat of injury.

On top of all that, we're going to have the change effective July 1, where Chinese policy on rebating VATs on exports has changed. That has been announced; that has been widely discussed in the industry. It is widely perceived in the industry as having the effect of restraining future exports from China; and that will add yet another reason why there is simply not a factual basis to find an imminent threat from imports from China in this case.

So, on injury, just to sum up: Profits

remain at or above historical levels. Prices remain strong at historical high levels relative to hot-rolled prices. Demand in 2007 remains quite strong. Imports from China have fallen for the past two quarters; and the new policy on the VAT will limit future imports from China.

So, with all due respect to the presentation this morning, we submit: This is not a case that would warrant either a finding of current injury, or a finding of a threat-of-injury. The Commission, in this case, can take advantage of its extensive experience with the standard-pipe industry. You can take advantage of the fact that you have an extensive factual record from other cases that includes much of the period of time that you're looking at now; and you can take advantage of the fact that you have reasonably good response from the questionnaire responses.

So you can basically take the carefully developed record from the recent Sunset case, the carefully developed record from the 421 case, and you cam simply look and extend the trends that you saw in those two cases for the more recent period of time.

You can see that the data you're collecting now is dead-on comparable with the data that you've collected previously. And when you look at your historical information from the other investigations, your collective experience with this industry, and with the information you've collected so far in this case, you have a record now that the Commission can make a negative determination even at the preliminary stage.

This isn't a case that has to go to a final for you to build a better evidentiary record. The evidentiary record is in excellent shape right now.

Thank you.

MR. CARPENTER: Thank you. Does that conclude your testimony?

MR. PORTER: That concludes our presentation. Thank you, Mr. Carpenter.

MR. CARPENTER: Thank you very much. We will accept your slides as Respondent's Exhibit 1, and include those in the transcript.

MR. DORN: Mr. Carpenter --

MR. CARPENTER: Could you come up to the microphone please, Mr. Dorn.

MR. DORN: It is my understanding that these slides contain a lot of information they purport to have taken from the APO record. I question the appropriateness of having that presented in this part of the record here.

MR. CARPENTER: I'd be happy to --

MR. DORN: They couldn't have done this without access to the APO record, and we have no opportunity to vet the numbers. We don't know how they put them together.

It is just not fair procedurally for them to be picking things from the APO record to put into a hearing and having us respond. We think it's inappropriate and would ask that it not be accepted into the record.

MR. DURLING: If I could respond, Mr. Carpenter?

MR. CARPENTER: Sure.

MR. DURLING: First, the tabulation into a public forum of APO information is a common practice. We have done it repeatedly in hearings before the Commission. We also spoke specifically with the Staff, in advance, to confirm under circumstances we could do a tabulation in this case.

We were very careful to make sure we were only presenting kind of dollar-per-ton figures, percentage figures. Although it would have been interesting, we did not submit any just total profits, or any other numbers that would allow the reverse engineering; and we were very scrupulous in making sure that every single number presented here is well within Commission policy for tabulation.

We're talking about profitability figures for dozens of companies; we're talking about aggregate numbers that are completely public. It's exactly the kind of information you made public in your reports. It is exactly the kind of information that is commonly made public and discussed in Commission hearings.

And we did specifically raise it with the Staff in advance. We're perfectly happy to make this part of our post-hearing brief. I don't think there's any procedural unfairness here, because if there's anything that Petitioners -- if they have any concerns about the tabulations we've done, I'm sure they will exploit that aggressively in their post-conference brief. And the Commission will have every opportunity to look at the numbers and draw their own conclusions.

At the end of the day, the decisions are based on the record that you tabulate. The only purpose of this presentation was to highlight for you some broad themes, as we see them now, and to present them to you so that you can consider them.

If you do a tabulation, and you come up with different numbers, those are the numbers that are going to be the basis for the decision. This is simply calling your attention to issues to think about, especially given that there was no discussion of any of this in the morning, we submit that it is a helpful exercise to just raise the other set of issues that you weren't hearing this morning.

MR. CARPENTER: Okay. We'll take another look at these slides. Based on what I've seen it appears to me that there's nothing confidential in here. And procedurally I would think to the extent that Petitioners feel compelled to respond to this in their brief, if they're made part of the transcript at this point you would have them in front of you and you would be able to respond to them in your brief. But I would also agree that these are based on preliminary information and the Commission, as I understand it, is still receiving questionnaire responses. Therefore I would expect that the staff report would contain more complete information, and of course that's what the Commission will be basing its determination on.

Like I said, we'll take another look at this. At this point I'm inclined to accept it, but we'll make a decision on that before we conclude today.

Thank you.

At this point we're ready for the staff questions. Ms. Trainor, do you have any questions?

MS. TRAINOR: I'd like to thank the panel for their testimony today and I have no questions at this time.

MR. CARPENTER: Mr. St. Charles?

MR. ST. CHARLES: I thank you also very much. You've done a very fast job of pulling together a response.

I would repeat my question that I presented to the domestic industry. I understand the unique facts of this case and the outstanding orders on the other cases, but I would nonetheless appreciate a discussion of Bratsk.

MR. PORTER: We'll be happy to do so.

MR. ST. CHARLES: Thank you.

MR. CARPENTER: Mr. Benedick?

MR. BENEDICK: Yes, I'd like to begin some questions with Mr. Durling.

Looking at your exhibit on pages 25 and 27, the real construction was up in the first quarter of 2007 and yet U.S. producer prices on page 27 are going down and imports from China are going down. Do you have an explanation?

MR. DURLING: Yes. The explanation is the relationship between standard pipe prices and hot-rolled prices.

The reality is that you can only build a gap over hot-rolled prices up to a certain point and you can't just keep building it and expanding that gap to make it larger and larger and larger over time.

If you look at one of the earlier slides which is final information collected by the Commission and not the preliminary information like we're dealing with now, you'll see an unbelievably tight relationship between hot-rolled prices and standard pipe prices. It's an incredibly strong relationship.

MR. BENEDICK: I understand that, but in a period of rising demand would you expect that gap then to shrink just because it can't keep going up anymore? Wouldn't you expect that to happen more realistically if demand leveled up or turned down?

The second part is, why would imports from China go down when demand is up?

MR. DURLING: As an economist I'm sure you understand that there are many things going on at the same time, and what we're observing is the net result of multiple factors. So we're trying to discuss each of these factors one at a time when in fact there are a lot of factors going on at the same time.

The strong demand explains why the domestic industry was able to sustain as long as it did a very high gap over hot-rolled prices. In the absence of strong demand there probably would have been even greater closure. In fact over the whole period of investigation that's part of the explanation for why they were able to build a gap.

In 2004 they built the gap because 2004 was a crazy year in the steel industry. That's been well documented in many of your investigations. So 2004, crazy year, prices going haywire, hot-rolled prices going to unprecedented levels. So everyone's prices shot up.

It was the strong demand in '05 and '06 that allowed them to keep a price/cost gap much higher than had historically been the case, but it doesn't allow them to sustain that forever, and there's going to be some variation in that.

I guess the other point I would add is that you can draw much stronger conclusions when you're looking at a period of time and seeing how prices and costs are reacting over a longer period of time. The Commission has rightly been cautious in drawing overly strong conclusions from the result of a single quarter, and that's all we're really observing in the first quarter of 2007.

So when you look at the trend over the entire period of investigation, I think the pattern is clear and the first quarter of 2007 is generally consistent with that.

MR. BENEDICK: Let me ask you this. Your reliance on non-residential construction in looking at the first quarter 2007, in the first quarter of 2007 real GDP tanked, .6 percent growth on an annual basis. Should we be looking at real GDP as opposed to non-residential construction as being one of the demand indicia?

MR. DURLING: I think it's fine to look at a broad range of indicia. We took our cues from the measure of demand that the Commission has used most recently in its investigation of standard pipe, so we certainly aren't adverse to looking at other measures, but given the degree of emphasis the Commission put on this particular measure of demand in its most recent case we took that as our guide for this preliminary investigation.

MR. BENEDICK: What would be some of the other factors that would cause imports from China to decline in the first quarter of 2007?

MR. DURLING: Every business is making a

constantly changing set of choices about how they want to emphasize their particular product mix. So Chinese producers have to decide how much should come to the U.S., how much should be used in the booming Chinese market, in fact there is a booming Chinese market. Chinese prices are high. Chinese demand is very very high. There is a booming market in China. So at any given point in time they have to make choices about where they want to ship the pipe they produce and they have to make choices about how much pipe they're going to produce.

The U.S., contrary to the argument you often hear from domestic industry, the U.S. market is not the only place in the world that you can sell steel. There are lots of other places that you consume steel, and the vast majority of the steel produced in China is consumed in China.

MR. PORTER: I'd like to ask the industry witnesses to also respond to your question.

MR. BENEDICK: Yes, please.

MR. SCHMID: Just to further on that, the European market has been red hot. The Indian market has been red hot. The Korean market has been red hot. Worldwide the last year and a half have been stronger than they've been in a long time and they don't always choose to go this way with their product.

We can see the industry slowing and demand slowing and their prices going up. It's not uncommon. In 1989 through '91, you almost couldn't bring a piece of steel into the U.S. because there were other economies that were booming and consuming it and ours wasn't. It just wasn't competitive from off-shore.

MR. BENEDICK: We were in a recession, part of '90 into '91 so I can understand that.

Let me ask you this. If you have any specific information on choices that the Chinese producers were making such that during the fourth quarter of 2006 and first quarter of 2007 that would explain why product wasn't coming here, or if you have any other reasons, could you put that in your post-conference brief?

MR. PORTER: Yes, we'll do that.

MR. BENEDICK: Thank you.

Again, Mr. Durling you've identified in your exhibit this price gap between the price of U.S. producers, circular welded pipe and the cost of steel. Are there other cost factors that are increasing for the domestic industry such that they need a higher gap from the price of steel?

MR. DURLING: A couple of responses.

First, when we've done these slide we've done them based on black pipe to avoid the issue of zinc prices which are somewhat more volatile.

MR. BENEDICK: Okay.

MR. DURLING: We tried hard to choose comparisons that would give you the cleanest picture about the basic hot-rolled steel. I think if you're talking about black pipe, hot-rolled steel is overwhelmingly the most important input. There may be some other raw materials, but I don't think they're going to be material to the basic cost of the product. Their own estimate was approximately 80 percent.

But that's why we presented both gross profit and operating profit, because at the operating profit level that's capturing any other sort of operating costs so that is being reflected.

We can't plot on a time series graph the other factor costs because we don't have monthly or quarterly time series on other operating costs. You only collect that information on an annual basis. But if we look at the annual trends we see roughly the same trend with the gross profit level and the operating profit level.

So by inference the other factory costs, and again, for individual companies, huge variations.

Individual companies have different results. Individual companies have different results from year to year. But when you aggregate it all together it's actually a pretty stable trend that it's not the other operating costs, it's the price of the key raw material going into this particular product.

MR. BENEDICK: Thank you.

Mr. Schmid, I have a question for you.

You mentioned shipping costs and that you couldn't get some products on the west coast because they were only produced on the east coast and it was too expensive to ship them. Are U.S. and land shipping costs a significant part of the delivering the product to the customer?

MR. SCHMID: They can be. They can be a large part of the cost.

MR. BENEDICK: Is this mostly galvanized that you were talking about? The galvanized pipe?

MR. SCHMID: No, not necessarily. We sell a substantial amount of waterwell casing on the west coast as well.

MR. BENEDICK: I have no further questions, and thank you very much for your comments.

MR. CARPENTER: Mr. Jee?

MR. JEE: I do not have any questions.

MR. CARPENTER: Mr. Van Toai?

MR. VAN TOAI: Thank you very much for coming. I have no questions.

MR. CARPENTER: Mr. Corkran?

MR. CORKRAN: Again, thank you all for taking the time and coming here before us. I have several questions, the first of which I don't prefer this style but I'd like to kind of read into the record and ask for you to respond. Some of it was alluded to earlier this morning.

USITC Publication 3807 published in October 2005 contains the Commission's report on circular welded, non-alloy steel pipe from China which was investigation number TA-421-6. Estimates of coverage of the Chinese industry ranged from 75 percent to more than 90 percent according to the report, and the U.S. import data and reported Chinese exports to the United States appeared to be very much in alignment in 2004. In other words, the data appeared to cover a fairly large portion of the Chinese industry.

My question is, Table IV-2 of that report found on page IV-4 shows projections by the reporting Chinese producers of stable capacity and modest overall export growth, and included within that, declining exports to the United States.

My question is, what has occurred during the intervening time that would lead us to the current import data that we saw this morning and has been discussed here, compared to the projections that were made at that time?

MR. PORTER: Mr. Corkran, this is Dan Porter. I'd like to respond in two ways. First I guess I want to make, I guess recall sort of a legal point that we're talking about projections. Projections are essentially best guesses of what's going to happen in the future. They are just that, best guesses.

In talking about this this morning, Mr. Schagrin made a very sort of passionate statement claiming that the Chinese producers had somehow defrauded the Commission in making these best guesses. Mr. Schagrin chose to quote a rock band. I'd like to actually respond by quoting a proverb. "What's good for the goose is good for the gander."

I say that because, as you know, your questionnaires don't only ask the foreign producers to make projections. They ask domestic industry. Also when the domestic industry comes here, they make statements about what's going to happen in the future. And I noted in that very case that you're talking about, the President and CEO of Wheatland Tube came here and under oath said the following.

I already know the fourth quarter is going to be lousy. Quote, "And I don't see any possible improvement until next year unless we win these cases."

So he's saying, he's predicting bad times, low profits, unless they win the 421 case. What happened? They lost the 421 case. The President decided not to impose relief and what happened in the market? Recordbreaking profits.

So sort of who is misleading whom here? So that's my legal question as responding to the factual what's going on in the market in between sort of the middle of 2005 and through 2006.

I'd like to turn it over to the industry witnesses.

MR. SCHMID: With regard to volume?

MR. PORTER: Why the imports from China increased so much in 2006, basically.

MR. SCHMID: A lot of it is based on what traders in the industry believe. If our customers' inventories are running low and they believe there's going to be substantial demand, they buy ahead for that. But if they've got a lot of material on the ground and they don't believe that the future is that rosy, they might slack off.

We had an incredible year in 2004 where they started out the year where you just couldn't get the steel anywhere. So when people could buy steel, they bought heavily. Really heavily. Then when we got into 2005 everybody got really nervous and nobody was booking steel.

But as it turned out, the market was pretty good so we got tight on supply again and everybody's rushing to buy again. Then all of a sudden everybody's a little bit emboldened from that point forward, then you get this huge supply coming in. It's a very inexact science. It's based on people's opinion and what they can do with their supply and what they think the future brings, and a lot of times we're wrong.

MR. CORKRAN: I know this isn't a fair question to ask in a sense, but I'll pose it anyway and see if you can address it or not.

Do I take from that that the feedback coming from the traders and eventually working its way to the suppliers in China was basically an extended period of supply in the U.S. market that exceeded demand expectations at that time? That was essentially the view.

You as a trader, is that what you -- sorry, you as an importer. Is that what you were conveying to your suppliers in China?

MR. SCHMID: You mean early 2005?

MR. CORKRAN: Early to mid 2005, yes. You'd have been making your guesses for the next six to twelve months.

MR. SCHMID: We were recommending to our customers that they back off and we were backing off because there had been a lot of steel coming in in 2004 and this is not my first steel shortage, and at the back end of them it can be kind of dangerous because you see all this market that you think you're going to sell to, but so does everybody else. Then all of a sudden there's a downturn in construction and the amount you've got coming in is going like this, and construction is going like this. So you get conservative.

The industry, because they remembered 1986 through '88, the industry was conservative, they were too conservative. And so then all of a sudden you had all these inquiries out there where people needed to get some stock on the ground. That's the way I see the surge of 2006.

MR. CORKRAN: One of the questions I think I would have is if there was a rapid change in the market environment, given the very long lead times associated with imports, wouldn't it seem more logical that domestic suppliers would be the suppliers that benefitted most from a rapid change in the market environment? Or were there other factors in play?

MR. SCHMID: It would seem to me they would benefit from that scenario, because we can't get there quick enough.

Actually the cycle, like I mentioned, I've been doing it for 30 years. If you look at the cycle when we come out of a market like this which is a bit over-supplied, the stocker has a tendency to favor the domestic mill. He looks at it and goes yeah, okay, I bought it 20 percent cheaper but you were late with it. now the market's down here. I can't sell it, I've got no return on my borrow. It's just taking up space, it's getting rusty, and you'd have a tendency in those periods to lose a fair portion of your clientele to the domestic industry. I can buy it form this guy, you'll ship it, I'll ship it, and we're done with it. So there is a benefit there.

MR. DURLING: One other aspect, Mr. Corkran. When you're facing a tight market where demand is growing so you in theory have the opportunity to supply additional tonnage, you have to make a business decision. Do you want to supply the extra tonnage or do you want to let the tight market create price increases and profit increases for you.

The domestic industry continued to support the standard pipe industry. They continued to supply. But I think a lot of the companies just made a business choice that they would rather let the tight market, allow them to sustain very very strong profit margins and produce some standard pipe, make good money on standard pipe, produce some other products, make good money on those products, and that's the way they wanted to play the market.

You heard this morning, oh, we have lots of capacity, we could produce and supply everything that the Chinese supplied. But again, if you look historically, again, you don't often get this kind of experiment. The President shut off standard pipe imports, so for a two year period, two and a half year period the domestic industry had the market to themselves. They could produce every ton of standard pipe they wanted to, yet even then they had capacity utilization figures, and this is from your public staff reports, they had capacity utilization figures that were at about the same level. We can't go into that now because it involves specific numbers, but what you'll see when you finish collecting your information here is they're pretty much where they are, right now they're pretty much where they were during the period of the Section 201 relief. So they're making as much of the stuff as they're choosing to make.

If they chose not to make it in the period of Section 201 relief when they were basically given the market completely to themselves with virtually no imports, if they chose not to make it then, how credible is the representation that if there weren't Chinese supplying the market that they would basically dramatically increase their production and add shifts and produce all this extra output? They had a chance to do that once before, they didn't. Why would they react any differently this time?

MR. CORKRAN: For myself at least I'm going to leave the issue of projections coming from a different case. I imagine we'll continue to hear more about that but it is something I wanted to touch on.

While we're talking about historical data, I just wanted to at least throw into the mix, I'm not sure I particularly want to concentrate on it, but a couple of times during the discussion, comparing results, profitability in 2001 to 2003 versus the current period, there were several references to the fact that the domestic industry was, that there was a safeguard action on standard pipe at that time. Actually that is definitely correct.

But just as you indicated that with the projection period of 2004-2005, there can be other market events going on. I would just caution at least that there were other market events going on that could have an impact on profitability as well. Overall demand levels at that time and the fact that the material input for hot-rolled steel had a tariff on it twice the level of standard pipe.

Again, I'm not disputing the information that's on the record, just saying in looking at it are there other things.

MR. DURLING: Absolutely. We don't disagree with any of that, Mr. Corkran, but the benefit the Commission has in this case is you have so much data on this industry. We didn't do it this morning or this afternoon because of time constraints, but it's interesting, when you combine all of the reports you've done on this particular product you can go back a long time. So you can look at the period during 201 relief, the period before 201 relief, you can do three year averages, five year averages, ten year averages. I actually did that last night. You can't find a three year period of time in the entire history of the Commission looking at this industry, you cannot find a three year period of time where they've made as much money on a per ton basis as this.

So any given period of time may have something else going on, but when you stretch out a five year average, a ten year average, you can have more confidence in the inference you're drawing about how their performance is now relative to earlier periods of time. Again, it's simply one tile in the mosaic. Your decision is not driven by any one single factor. It's simply one piece of an overall picture. But I've been doing this for more than 20 years, and it is a particularly important piece of information that the Commission seems historically to have put a great deal of weight on, so we just wanted to make sure that it was front and center in your thinking about this issue. We wanted to get the issue out on the table. It gives you a chance to focus on it more, gives them a chance to focus on it more. I welcome their response in their post-hearing brief. I welcome their explanation of why they've been doing so incredibly well and why they feel they're still entitled to relief in spite of this incredibly strong performance.

MR. CORKRAN: I had a technical question for Mr. Schmid. You focused some of your testimony on the issue of waterwell casing. Which ASTM specification is waterwell casing covered under?

MR. SCHMID: It can be covered under ASTM A-553 Grade B or A-500 Grade B.

MR. CORKRAN: Is there another specification? I'm a bit rusty, but is 589 a waterwell spec?

MR. SCHMID: ASTM 589. Any more to my knowledge it's a tiny market left in the Carolinas. We actually try to serve it all out of Korea, but that would be the only place I know that it exists.

MR. CORKRAN: So for waterwell applications you would still be using A-53 and A-500 products?

MR. SCHMID: Yes. In some cases you can use A-53A.

MR. CORKRAN: One of the questions I had as well on, just to elaborate, at least where I understood some of the testimony was going. Official import statistics can be broken down in terms of port of entry and in terms of product mix, at least to identify galvanized product.

Would you please in your post-conference brief take a look at those data? I would be very curious to see whether substantial portions of the increase in imports from China are accounted for by galvanized product or for product entering into the west coast as opposed to elsewhere in the United States. I don't know if it's something you could speak to now. That would be good as well.

MR. PORTER: We will definitely look at that.

I think the point of Mr. Schmid's testimony is just that. Some volume, and we'll let the data speak for themselves, whether we can say an overwhelming majority, a substantial portion, but his point is just some volume is accounted for the fact that what's coming in is galvanized pipe and hot-dipped galvanized pipe that has very limited production here. That's his basic point.

MR. CORKRAN: Thank you.

With respect to non-subject import data, previous Commission investigations have identified the fact, as was alluded to this morning, that there can be mechanical tubing included in import data. In most previous cases the focus of that has been on Canada.

If you would address now or in your post-conference brief the use of the StatCan data in the petition, and any thoughts you might have as well on the use of value data as only quantity data are provided by StatCan.

MR. PORTER: We will definitely address that in our post-conference brief. I just want to add, I think it was you this morning sort of raised the idea of you need to be careful with AUVs in comparing sort of the relative pricing among different countries. We wholeheartedly agree. I was just here last week on another case where the AUVs were completely not comparable because of the vast product mix. Sometimes you can't, sometimes you can.

What we're going to endeavor to do, because of the Bratsk question, is try to get as close to what we call an apples to apples comparison from importers like Mr. Schmid to say here is an offer, you can see the invoice; or here's an invoice, what I paid, here's an offer for this product, the exact same product, and we can compare pricing that way.

MR. CORKRAN: Mr. Schmid, I'd like to go back to you.

Early in your testimony you discussed a number of potential sources of imports of standard pipe and later in your testimony you followed up with the possibility that you might consider those sources again.

As I was listening to the list one of the things I was struck by was the fact that many of those sources are at this point in time subject to antidumping duty orders or the vast majority of the applications that are covered by standard pipe.

How does that enter into your consideration of future sourcing decisions?

MR. SCHMID: We just keep turning the pages. A lot of times it might be through a related party that has knowledge, a pretty good idea that if there's going to be dumping or the next review they're going to get a refund or de minimis, not an increase. Part of it is we're just looking at new countries and new mills.

All I'm saying is that the record shows that there will continue to be import in this country, particularly in the lower technological carbon pipes because it's a good market. It's a good price in this market.

MR. CORKRAN: What about the notion that as you pointed out, one of the, you looked to China as an important supplier of galvanized product. Does that similarly hold true that there are additional sources of potentially sizeable sources of galvanized pipe?

MR. SCHMID: They're a very good supplier of galvanized pipe for us. Hot-dipped galvanized pipe.

Other countries? There's lots of other countries that make it. I think the most difficult place to make it in the world is the U.S. because of EPA standards. I don't think anybody's put in a hot-dipped galvanizing in-line facility for pipe in the U.S. in my career. They really don't want them. But we still have a demand for the product.

MR. DURLING: Just one additional point, Mr. Corkran. I think the simplest way to get a feel for how broadly disbursed standard pipe technology is is to just look at the number of countries that have over the three year period of investigation shipped commercial quantities of standard pipe. You can pick your cutoff, but I think I was using a cutoff of 1,000 tons and there were more than 30 different countries.

So you have many many countries including some that aren't subject to antidumping measures, and it's not as if countries not on that list don't have the capability to either immediately or soon have the capability, and even the countries subject to orders continue to have product flow.

It's something we can go into more detail in our post-hearing, but it's not simply the case that there are antidumping orders on the rest of the world, so it's basically you shut out China and these guys get a monopoly. That's not what's going to happen. At least I hope not.

MR. SCHMID: I'd like to strongly add to that that that reduction of 650,000 tons of import does not equal 650,000 tons of increased domestic. The domestics don't make the quantity in all those products and haven't.

If we go back to, I think it's maybe 1980-ish when we had the trigger price system, I think Korea brought 610,000 tons of pipe into the U.S. that year. We did trigger pricing, then we did quotas. We got them down to 300 tons. But an awful lot of that capacity is not going to be picked up by the domestic producer.

MR. CORKRAN: Mr. Schmid, I wanted to follow up on a statement that you made, I believe. In your testimony you were speaking of spreadsheet buyers who would buy from any import source available based on bottom line price.

I believe you had suggested that absent imports from China, that product from other sources would be available, other import sources would be available at prices comparable to the Chinese prices. Can you describe potential suppliers who would be able to come in at the price levels available from China and anything approaching the quantities available from China? I mean can you direct me more to what those sources might be?

MR. SCHMID: Not in the short term. Not in the next quarter. But if we go back before the 2004 shortage, India was very close to the Chinese prices and was a big player in the standard market. I can't say which ones they are. Other ones will emerge because Europe and Asia have been red hot for quite some time now, and with the Chinese dominance in this market a lot of people would just choose to play in a market where they might make a few more bucks because of shipping or whatever, logistics.

MR. CORKRAN: I would request, similar to what Mr. St. Charles asked, that you address the Bratsk issues. If you could tie the testimony into your discussion I'd appreciate that.

The question I would be left with is, if other markets outside the United States are particularly strong, what incentive would that leave for non-Chinese suppliers to enter the U.S. market at prices that were comparable to the Chinese prices?

I'd like to move on to the announcement of the removal of the, or I should say of the rebate, export tax rebate situation in China.

The first thing I want to do is try to understand the situation a little bit better. Was there any substantial change in the export tax situation during the period 2004 through 2006? Or was that fairly static?

MR. SCHMID: No, there was no change in it. They discussed changing it quite a few times. I don't think they changed it until they came over here and had some sort of summit, then they went back and announced changes in most of the steel products, and then a little bit later announced it on welded pipe.

Incidentally, I would also mention that the RMB has appreciated eight percent this year and the forecast is that it will have a pretty strong appreciation through the rest of the year.

MR. CORKRAN: Thank you, I appreciate that. Where I was going with that was I was trying to determine whether the import trend, the trend you see in U.S. imports from China, whether that was tied in a direct sense to changes in tax policy.

MR. SCHMID: Only to the point when the

industry realized what was going on, there was a rush to get what they had made on the water in May. We actually had two vessels cancel on us because somebody else apparently bid a higher price for the stowage.

So yeah, there was a rush to get what you had made because nobody wanted to lose that 13 percent and the mills would have passed it on.

MR. CORKRAN: One thing I would appreciate from either Respondents or Petitioners, as has been alluded to, we've certainly read quite a bit about the changing situation or news reports of a changing situation on the export tax ramifications for Chinese pipe.

If anything official is issued by the Chinese government that actually clarifies exactly what the situation is, unlike the rumors of what it may be, what it is likely to be, that would be very helpful.

MR. PORTER: There are officials now, and we can provide them. They're issued by the Ministry of Finance and we can provide them.

MR. CORKRAN: I just wanted to thank everybody again for coming, for your testimony. We very much appreciate it and found it very helpful.

Thank you.

MR. CARPENTER: Mr. St. Charles?

MR. ST. CHARLES: Thank you again.

Mr. Schmid, you mentioned that there will always be imports because in part prices in the U.S.. Could you elaborate eon that?

MR. SCHMID: For instance, if we take the galvanized and the mechanical side of it, you'd asked about a large national, who the large national distributors -- It hasn't really changed in the last few years, but one of them would be Ferguson Enterprises. Ferguson probably has 2,000 outlets across the U.S.. They're going to leverage that buying power and they're going to buy large quantities and they're going to buy it on futures, where they can take the financial responsibility of carrying that inventory, and they're going to make a profit on it. I don't think it fits the model of the domestic mill.

I don't think the domestic mill makes all the products, or doesn't make all the products in the quantity they would need. And I don't think it fits their model.

Another example on the retial level would probably be Home Depot. Home Depot is not afraid to make a commitment six months out in projections and warehouse material to suit their needs. They're in every corner of the country, and logistically you're just not going to ship them out of Arkansas to all those locations and cover what they need. So the market's always going to be there for imports.

The port of New York is close to Turkey. The Gulf is good out of South Africa. The freight rates are very reasonable.

MR. ST. CHARLES: I have no more questions.

MR. CARPENTER: Okay, again, thank you very much panel for your testimony and for your responses to our questions.

At this point before we proceed with closing statements we'll take about a ten minute break to allow counsel for both sides to collect their thoughts.

Thank you.

(Whereupon, a brief recess was taken.)

MR. CARPENTER: Gentlemen, please proceed whenever you're ready.

MR. KAPLAN: Thank you, Mr. Carpenter. I just want to make a brief point about the VAT rebate which was supposedly eliminated less than 30 days after this case was filed. We haven't seen any elimination yet. What do you think is going to happen if anything happens to this case other than it going affirmative with respect to that VAT rebate?

It's been in effect for years. It's had a very significant affect on the build-up of market share. There are also many other export subsidies. Ten or 11 in this case. It's very easy to absorb that 13 percent rebate into some other kind of export subsidy.

Finally, I'd just say the underselling is going to be a lot larger than 13 percent. Even without the VAT rebate, there's going to be very very significant export subsidization and underselling.

MR. DORN: To begin with, Petitioners do not accept a single number in Mr. Durling' powerpoint slides. Those numbers are based upon incomplete data. The questionnaires haven't been received. Questionnaires that are being revised. They're not the numbers the commission's going to use in making its decision so I don't know really what the point is.

I do, however, like Slide 12 which gives you the quarterly imports going back to the first quarter of 2004. If you look at that carefully you'll see that imports on a quarterly basis, year to year, have increased every quarter for which we have data. It's up, up, up, up if you compare quarter to quarter to quarter.

As Roger said earlier, we expect the second quarter to be a gangbuster in terms of imports in 2007.

On the profit comparison, totally unfair. He's comparing periods that have distinct demand characteristics, a recession period basically during the 201 relief, versus the 2004-2006 period in which we had robust and increasing demand.

They focused on profits per ton. Why did they do that? They want to ignore the fact that the tons produced by the U.S. industry are going down.

Let's look at profitability in terms of total profitability, not on a per ton basis. There you'll see that profits are going down from 2004 to 2006 and sharply from first quarter 2006 to first quarter 2007.

The fact is the slides don't address a host of the statutory criteria that are going to govern the decision in this case. They ignore the volume of imports. They ignore the market share factor. they ignore price underselling. They ignore output. They ignore utilization capacity. They ignore employment. They ignore industry growth.

Turning to Mr. Schmid's testimony, it's just not true that waterwell casing is not available from

U.S. producers. Wheatland makes it, Atlas makes it. Give them a call. We'd be glad to place an order.

There's no shortage of galvanized pipe in the United States. With respect to his comment about freight costs to the west coast, it's all a matter of price. You take away the subsidy, you take away the dumping, we can get product out to the west coast. It's all a matter of price.

I did like his comment about spreadsheet buyers which has emphasized the fact that price is a large factor in terms of purchasing decisions.

The bottom line, believe it or not, a lot of the key facts here are not in dispute. There's no dispute about the volume going up or the fact that volume is significant. the first factor is a no-brainer. Volume is significant.

There's no dispute about the underselling. That's a given, right?

There's no dispute that demand was strong and growing from 2004 to 2006 and into the first quarter of 2007. This should have been salad days for this industry. They should have been making lots of money. They should have been increasing capacity, increasing production, increasing employment, but just the reverse was going on.

There's no dispute that product is basically a fungible commodity sold on the basis of ASTM specs in the same channels of distribution for the same applications.

So look at what was presented here in terms of evidence. On our side of the presentation we had five witnesses representing companies involved in this industry that represent most of the production, and they testified about the harm they've suffered from imports from China.

The Chinese were a no-show. We had no witness with personal knowledge. We had a lawyer who was talking about incomplete facts that are in the confidential record that we're in no position to vet or respond to.

And with respect to importers, we had one importer that represents a slier of imports to the United States.

MR. SCHAGRIN: Thank you. Roger Schagrin.

Let me just start with that one importer's comment, that he actually liked to buy domestic, even though he seemed like a pretty dedicated import buyer, but that Northwest Pipe shut down their Portland, Oregon facility in 2003 or 2004 because they couldn't buy steel.

An executive of Northwest Pipe testified in the 421 case that they shut down the Portland facility because they couldn't compete with extremely cheap and large volumes of imports from China.

Northwest Pipe is a publicly traded company. If they shut down a facility because they couldn't get steel, they would have told that to the public. They're required to by the SEC. We'll have somebody from Northwest Pipe here for the final because I know there will be a final hearing before the Commissioners.

He talks about Home Depot doesn't mind making big commitments six months out to buy imports. Yeah, and they don't want to do that with domestic.

Home Depot wants to buy at below domestic producers' cost of production. That's why the domestic industry has lost all their Home Depot volume to the Chinese.

As Joe mentioned, the only focus by Chinese counsel today was on profits. They couldn't talk about any of the volume factors.

When you look at this record you're going to see over the period of investigation '04 through first quarter of '07, declining market share. Declining production. Declining shipments. Declining employment. All falling. Volume effect alone can be enough for injury. But the fact is, even when they focus on profits, as Joe mentioned, they had to go to a period of recession for comparison. When you look at '04 to 06 and quarterly '06 to quarterly '07, you're going to see declining total operating profits and declining operating margins.

But even if you give Mr. Durling, if you said okay, you're right. You can focus on just margins per ton. Under Mr. Durling's hypothetical if you take it to its natural conclusion and the ITC would make the mistake of making a negative determination here, and the Chinese projections were wrong again, and imports doubled or tripled in the next two or three years, we'd be back here in 2009 with a domestic industry making half a million tons instead of a million and a half tons, and Mr. Durling would be saying ah, so they've gone from two million tons to a million and a half to a half million. Look at their profits per ton. It's ridiculous. That's why people like Mr. Durling and everybody else coming before this Commission only want to talk about money and profit and wants the Commission not to focus on the entirety of the record and all the statutory factors.

Let's get to those false projections. We heard two different excuses. Oh, you know, we can't really predict economics. In economics, things happen. Hopefully they'll bring a real economist later. I don't think economists say "things happen in economics." But what was unusual about the Chinese projections, we know they're just projections, but what's unusual about that situation is that the same time Chinese producers were telling the Commission one thing, Chinese producers were telling U.S. producers and U.S. importers exactly the opposite. That's what's unique.

As to what Mr. Dooner said here in the 421 case, that tit for tat just doesn't work. Because what Mr. Dooner said came true. you have it in the sunset. Domestic profits did fall by $40 million in the next year. Mr. Dooner was right. He said if we don' get relief from the 421 things are going to get worse. They did get worse. Wheatland closed their second-largest plant and sent 400 people home, most of them permanently.

So I think when you look at the record as a whole you're going to find all the statutory factors for injury are satisfied and you won't even have to get to the threat factors. But the Chinese industry is massive, they are poised to continue their export assault on the U.S. industry. It's a commodity product. They undersell significantly. They have a lot of excess capacity. without relief we would see real and imminent injury.

Thank you.

MR. CARPENTER: Thank you, gentlemen.

Mr. McCullough?

MR. McCULLOUGH: The Commission looked at this industry in mid 2006 during the course of a sunset review with a separate group of orders covering imports from eight other countries. It had the misfortune of considering less than perfect information in that review given the fact that many of the foreign entries did not participate. But it nonetheless found that the domestic industry at that time was not currently vulnerable to material injury.

Just one year earlier, in 2005, the same domestic entry appeared before the Commission to address imports from China under Section 421. A small bump in the road in the form of operating margins that were in line or better than historical performance for the industry became the basis for calls that the sky was falling.

In that case, however, there was a defense by foreign producers and it was shown that the domestic industry was simply working its way through to much higher profits by the turn of the year.

The data collected by the Commission in this investigation, the preliminary data that we've reviewed, more than substantiate the evidence place on the record in the 421 investigation with the industry returning to, by any historical measure peak profits in 2006.

I feel like there needs to be a bit of a collective sigh here because I felt we were going to get the whole defraud and lying issue off the table and get away from that, but Mr. Schagrin wanted to return to it again.

I'm only going to say that information is imperfect, markets are hard to predict and people can be wrong. I think Mr. Schagrin and a number of his clients can appreciate that fact in light of the two recent sunset reviews on plate that he and I both participated in.

As far as this specific case and the 421 case which I did participate in, and I take some exception to his remarks, the industry told the Commission in 2005 that it was at the breaking point and doubted whether they could push any price increases through to keep pace with the raw material costs if Chinese imports continued to enter the United States. They did not defraud the Commission, but they were wrong. I'm not going to accuse them of lying, but they were wrong. They were very wrong.

Guess what happened? The industry returned to peak profit levels and they pushed the spread between hot-rolled steel and pipe higher and higher throughout 2006 until it reached its highest spread ever in the fourth quarter of 2006.

I would submit that that kind of pricing behavior, behavior that was entirely out of the control of the Chinese industry, had something to do with determining the volume of imports in future periods.

So who really was misleading the Commission?

It's now 2007. We've heard the same story all over again. The domestic industry is back at a traditional operating performance for just one quarter, after three years of unprecedented profits, and they are crying foul.

But the reality is that the numbers have become so exorbitant that traditional measures of financial performance do not do justice to how the industry is doing. I find it a big odd and quite revealing that there was not one slide presented by the domestic industry today that had anything to do with financial performance. It was all about Chinese import volume.

Dollar for dollar, ton for ton, the domestic industry is earning more net profit per ton sold than it did on average in the period preceding the period of investigation in this case, and by a very healthy amount.

For long stretches during the period of investigation the domestic industry has defied the lock-step relationship between pipe prices and hot-rolled steel prices and pushed pipe prices higher, ending up in the fourth quarter, as I said, with a price spread that was higher than at any other period in this investigation.

One quarter of pipe pricing that merely returns to the traditional pattern of tracking hot-rolled prices is not grounds for earning import relief. This is particularly true when shipments have been stable, demand drivers are strong and projected to remain strong for the foreseeable future, imports are declining, profits are in line with historical norms, no apparent correlation existing between domestic industry performance and Chinese volume or

Chinese prices, declining raw material prices moving forward, all of which suggests better profit margins are ahead as raw material works through inventory and into the pipes they are making.

The domestic industry has tried to obscure some of this reality with an emphasis primarily on subsidies received by the Chinese industry, alleged subsidies. I think I need to respond to some of these concerns.

First, speaking from experience because I'm involved in a separate CVD investigation involving China, I think some of these allegations and the characterizations of some of the programs will prove to be very wrong.

Second, the Chinese steel industry is not export oriented. It consumes more steel than Europe, Japan and the EU combined. Rapid expansion in the steel sector was necessary to keep pace with demand. The outside world was not going to even possibly fill the gap needed by Chinese economic growth.

There was some reference at the beginning today from Mr. Kaplan about the current five year plan. I would note that there's not one reference in that current five year plan to steel exports.

Second, government policies in place since

2005 were designed to decommission obsolete capacity in China and restrain new investment in the sector through new investment disciplines and environmental regulations. We'll be able to document some of that.

Third, the Chinese industry is responsive to market signals and is becoming increasingly so through the attraction of foreign investment and the public listing of companies that place a premium on profit maximization.

I think in this regard you may want to ask the Carlisle Group a little bit about this since they are also now a major investor in the Chinese pipe industry.

Fourth, the Chinese government is sensitive to exports and has taken steps to disincentivize exports, most recently by eliminating the VAT rebate for pipe. There was some confusion in closing remarks by Petitioners. There was an earlier removal of the VAT rebate for other products. That was effective April 1st. There will be a complete elimination of the 13 percent rebate on pipe effective July 1st.

I think overall Petitioners' emphasis and accusations regarding China's steel policies are exaggerated and misplaced.

Let me just close briefly with what the

record reflects. It reflects an industry that's doing very well. It is not in need of import relief. To the contrary, it is performing in a way that by the Commission's own standards, if you draw it from the recent sunset review and operating performance there, a finding and a standard that demonstrates that it is not vulnerable to material injury.

Thank you very much.

MR. CARPENTER: Thank you, Mr. McCullough.

On behalf of the Commission and the Staff, I want to thank the witnesses how came here today as well as counsel for sharing your insights with us and helping us develop the record of this investigation.

Before concluding, let me mention a few dates to keep in mind.

The deadline for the submission of corrections to the transcript and for briefs in the investigations is Tuesday, July 3rd. If briefs contain business proprietary information, a public version is due on July 5th.

The Commission has tentatively scheduled a vote on the investigations for July 20th at 2:30 p.m. It will report its determinations to the Secretary of Commerce on July 23rd. Commissioners' opinions will be transmitted to Commerce on July 30th.

Thank you for coming. This conference is adjourned.

(Whereupon, at 2:02 p.m. the preliminary conference was adjourned.)

//
//
//
//
//
//
//
//
//
//
//
//
//
//
//
//
//
//
//
//
//

CERTIFICATION OF TRANSCRIPTION

TITLE: Circular Welded Carbon-Quality Steel Pipe from China

INVESTIGATION NOS.: 701-TA-447 and 731-TA-1116 (Preliminary)

HEARING DATE: June 28, 2007

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary conference

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: June 28, 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