UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No.:
FRONTSEATING SERVICE VALVES	)	731-TA-1148
FROM CHINA	)	(Preliminary)

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Tuesday,
April 8, 2008

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

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

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DANA LOFGREN, INVESTIGATOR
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CHARLES YOST, AUDITOR
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APPEARANCES: (Cont'd.)

In Support of the Imposition of Antidumping Duties:

On behalf of Parker Hannifin Corp.:

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CHRIS J. NELSON, Division Market Development Manager, Parker Hannifin Corp.
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In Opposition to the Imposition of Antidumping Duties:

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I N D E X

I N D E X

P R O C E E D I N G S

(9:30 a.m.)

MR. CARPENTER: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation No. 731-TA-1148 concerning imports of Frontseating Service Valves From China.

My name is Robert Carpenter. I'm 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, George Deyman, the supervisory investigator; Dana Lofgren, the investigator; on my left, Rhonda Hughes, the attorney/advisor; Nancy Bryan, the economist; Charles Yost, the auditor; and Ruben Mata, the industry analyst.

Individuals speaking in support of and in opposition to the petition have each been allocated one hour to present their views. Those in support of the petition will speak first.

I understand the 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. Dinan. Please come forward for your opening statement.

You have to move the microphone over and press the green button.

MR. DINAN: Thank you. Again, good morning and welcome, members of the Commission staff, ladies and gentlemen. My name is Donald Dinan, and I am the attorney for the Petitioner, Parker Hannifin, in this case.

The standard before us today at the preliminary stage of the investigation is whether there is a reasonable indication of injury that's defined by the statute that an industry in the United States is materially injured or is threatened with material injury by reason of imports of the subject merchandise and that those imports of the subject merchandise are not negligible.

In this case the Petitioner, the manufacturer of the merchandise in question, is Parker Hannifin. The merchandise is what's known as frontseating service valves, which we'll hear today

referred to as FSVs for convenience. As to the U.S. industry, Parker is the only remaining U.S. producer in the United States, and therefore it comprises the U.S. industry.

The merchandise as stated are the FSVs. FSVs, and they'll be described in much more detail during the testimony by Mr. Darryl Miller, who is the general manager of the client's Systems Divisions of Parker, are basically the unit, the valve that connects in central air condition systems, what's known as split system air condition systems, connects the outside unit with the inside system. Its primary functions are that it contains the refrigerant prior to the installation, and it allows servicing of the air conditioning unit.

The imports in question are from China. The China producers are comprised of two companies, DunAn Precision Industries, DunAn, and Sanhua. Likewise, there are only two importers from China, again both DunAn and Sanhua. There are no other imports of FSVs from any other country or any other producers.

As the evidence will show today, it will be shown clearly that there is a reasonable indication of injury. The evidence is overwhelming that the industry in the United States of FSVs is materially

injured and is threatened with material injury.

Finally, imports are not negligible. The statistics show that under the HTS numbers that FSVs have been imported from China or many have been imported from China -- a significant portion of those imports under those two HTS numbers are from China -- and that 100 percent of all FSVs imported into the United States are from China.

Our witnesses today will be Mr. Darryl Miller, as stated, the general manager of the client's Systems Division. The FSVs are manufactured at Parker's New Haven, Indiana, factory. He will be joined by Chris Nelson, the market development manager, and Patrick Magrath from Georgetown Economic Services, as well as myself.

Thank you very much.

MR. CARPENTER: Thank you, Mr. Dinan.

Mr. Craven, would you please come forward now?

MR. CRAVEN: Good morning. My name is David Craven. I am with the law firm of Riggle & Craven. We're in Chicago, Illinois, and I'm appearing today on behalf of Zhejiang Sanhua Company. I'm giving the opening statement on behalf of all of the Respondents in this conference.

We are here today to discuss what we can discuss. A lot of the matters that we wish to raise were going to be brought forward based on information in the confidential record, but we do think there are a couple of things that the staff can hear about today, the first of which is we agree that Parker Hannifin is the sole remaining domestic producer. We think you need to analyze why they're the sole remaining domestic producer, and we will talk briefly about their method of becoming the sole producer.

Secondly, while we think the product probably is FSVs, we think you need to consider the alternate products and the extent to which they may form some sort of price limiter on the selling price of FSVs.

Thirdly, we think you have to look at the demands of the marketplace and the demands of the end use customers and how that has created a vacuum into which the Chinese companies were naturally brought; specifically the need for an alternate source of supply.

As to the rest of the factors, we will be discussing those in the brief as those all relate to a single company industry in the United States.

Thank you very much.

MR. CARPENTER: Thank you, Mr. Craven.

Mr. Dinan, would you please bring your panel forward at this time?

(Pause.)

MR. DINAN: Good morning again. To begin our testimony we would refer to Mr. Darryl Miller, the general manager. Mr. Miller?

MR. MILLER: Good morning. My name is Darryl Miller. I'm the general manager of the Climate Systems Division at Parker Hannifin. I've been with Parker Hannifin 24 years.

Parker Hannifin was established in 1918 as a large, multinational corporation. It's divided into nine technology segments supporting 1,200 markets worldwide. Some of Parker's key markets include aerospace, hydraulics, seals, filtration and climate controls.

The Climate Systems Division of Parker Hannifin produces valves and other controls for a number of climate control applications using residential and commercial air conditioning, refrigeration and transport cooling.

Parker Hannifin, though its Climate Systems Division, is currently the only U.S. producer of frontseating service valves in the United States.

We've been producing valves since the mid '70s. Currently Parker produces all of its valves in the facility in New Haven, Indiana.

In North America, frontseating service valves are used to contain the refrigerant in the condensing unit prior to the installation in a split air conditioning system. Specifically frontseating service valves isolate sections of the system prior to installation and servicing and provides a means for the technician to charge refrigerant into the AC unit.

To understand how a frontseating valve is used, it's helpful to understand how a split system works. You can see in this drawing, the first one we'll use, that central air conditioning uses the furnace blower to actually draw in room air into the unit through the return air duct and then filters remove unwanted particles.

The room air moves past a chilled indoor A-coil called an evaporator which removes heat from the air. The resulting cold air travels to a large metal box on top of the furnace called a plenum, where the air is channeled back through the ductwork and returned back into the rooms in the house.

During the installation of the AC condensing unit, which is the outdoor unit, two frontseating

service valves are used to connect the outside to two line sets, what are called copper line sets in the diagram that you see. That conveys the refrigerant to and from the indoor coil in the expansion device.

On the second slide you can kind of see a breakout of where the valves are actually located on the unit. One line conveys the gaseous refrigerant while the other line conveys the liquid refrigerant. Hence, each air conditioner contains two frontseating service valves, usually a larger one, which you can see here, which is either a -12 typically or a -14.

Dash sizing, like a -12 would be a three-quarter inch valve and a -14 would be a seven-eighths inch valve. They contain the liquid, the gaseous state, and then the smaller one, the three-eighths or the -6, is used to convey the liquid refrigerant.

Frontseating service valves perform essentially three functions. They retain the precharged refrigerant in the condensing unit before installation as it arrives from the factory, they provide a shutoff possibility which enables the unit to be serviced once installed, and they provide a service port to pull a vacuum on the indoor unit to evacuate it during the installation and also a port for diagnostic units, the port being the service port

that you see here.

We have not included backseating service valves or ball valves in the scope of this case. Backseating service valves and ball valves are not interchangeable with frontseating service valves because of the differences in performance requirements, OEM specifications, physical characteristics and pricing.

Backseating service valves and ball valves are primarily used in the refrigeration applications, where FSVs are primarily used in air conditioning applications. As you can see from the samples, which I didn't bring a backseating valve, but they're significantly larger and different geometry.

Frontseating valves contain one sealing surface on the front side of the valve stem, which there's a cutaway here. This is actually the stem. That actually comes down and seals at this point, which shuts off the flow refrigerant from here to here, okay?

The frontseating service valves differs from a backseating valve in that the backseating valve has two sealing surfaces on the stem. Typically a backseating service valve is made of steel, where a frontseating service valve is a brass stem.

The backseating valve has actually two sealing surfaces, one here and then also one on the back side which actually is used to isolate the service port so that you don't need to have a valve core into the process and you can speed up evacuation and putting refrigerant in and then as it seals that valve core off eliminates a potential leak path through a valve core.

The frontseating service valve relies on an O-ring and stem cap metal-to-metal seal to prevent leakage. The backseating position seals off the valve core and then a cap is put on that as well.

Ball valves differ from frontseating service valves in that they use an expensive machined brass ball and nylon and/or teflon seals to provide the sealing. The ball will incorporate a full port flow path that reduces pressure loss and increases the unit's SEER efficiency. The acronym SEER stands for seasonal energy efficiency rating, which is a government mandated standard.

Because of the difference in physical characteristics, frontseating valves are produced on dedicated equipment in a machinery. Backseating valves and ball valves are produced on their own dedicated production lines.

Both backseating service valves and ball valves are much more expensive than frontseating service valves and therefore not chosen by OEM manufacturers of air conditioning units for their standard models. Backseating service valves are only used on OEM high end models due to their much higher cost to manufacture.

As recently as 2004, Parker Hannifin supplied more than 90 percent of the U.S. frontseating service valve market. In just three years our share has been decimated to only about a third of that market because of dumped imports from China.

There are two Chinese producers of frontseating service valves that supply the U.S. market, Sanhua and DunAn. Both Sanhua and DunAn have increased their volume by being the lowest priced suppliers in the market. They sell in very large volumes, and their prices are below our cost of production.

As a result, we have lost four of our six accounts to imports from China during the ITC's period of review. We have already lost part of our remaining two accounts and are threatened with losing the remaining frontseating service valve business if imports from China continue to undersell us at current

prices.

Our remaining customers have told us that we will lose their business for frontseating service valves if we don't meet the quoted Chinese price. We have done everything possible to lower our cost structure and prices. Our substantial efforts at trimming cost and improving efficiencies still do not allow us to match the Chinese price.

This is of great concern to us, particularly as our raw material costs have been significantly rising. Virtually all of our raw material costs are comprised of copper and brass. As you may be aware, copper and brass have more than doubled in the past three years.

We need the ability to raise prices sufficiently to cover these cost increases and to regain some measure of profitability on these products, but in the face of the high level of imports from China, we have been unable to do that. Even though the Chinese producers pay world commodity prices for these raw materials, their frontseating service valve prices do not reflect that increase in these raw material costs during this period to the OEMs.

You can see from our questionnaire response

that the direct impact of the large and increasing volume of dumped imports on FSVs from China is that our prices remain suppressed, our profitability has dropped, investments have been postponed, capacity utilization has plummeted and our employment levels have been significantly reduced. All these declining trends are tied directly to the presence of dumped imports from China in our market.

In conclusion, we have already cut production and trimmed our budgets as much as possible. However, if the high volume of dumped imports from China continue to undersell us, take market share and hold down prices, we will be forced to leave the frontseating service valve business entirely. We don't believe that option will be good for the market or for our customers.

The Chinese presence and influence in the market have become so pervasive that Parker's Climate Systems Division could lose the entire frontseating service valve market in the near future if assistance against unfair trade is not provided.

We are committed to remain a domestic frontseating service valve producer. While we recognize that there is a place for imports in the market, they must not be dumped. If the Chinese

industry is required to stop dumping in this market, we are confident that we can effectively compete again and achieve adequate returns on our investment as we were doing just a few short years ago.

Thank you.

MR. DINAN: We'll now call Chris Nelson, who is the market development manager for the Climate Systems Division of Parker. Mr. Nelson?

MR. NELSON: Good morning, everyone. As Don said, my name is Chris Nelson. I'm the market development manager for the Climate Systems Division of Parker Hannifin Corporation. I've been with Parker Hannifin for approximately five and a half years, and I'll describe how frontseating service valves are sold in the U.S. market and describe how imports from China have captured a significant share of our market in just three years.

Frontseating service valves are sold directly to OEM manufacturers of air conditioner units. In the United States there are seven major OEM manufacturers that purchase frontseating service valves. They are Carrier, Goodman, Lenox, Nordine, Ream, Trane and York.

During 2004, we supplied six of these OEM manufacturers, accounting for more than 90 percent of

the market. By 2007, we had lost entirely all the frontseating service valve business from four OEM manufacturers and partial business from others, leaving us with roughly one-third of the market.

As detailed in our petition and the questionnaire response, we lost all these accounts solely on the basis of price. Sanhua and DunAn significantly undersold us in all these transactions, often at prices well below our own costs.

Over 90 percent of the sales of frontseating service valves are on a long-term contract basis with contracts negotiated with the OEM manufacturers for multiple deliveries over a one to three year time period. Due to the significance of each contract, the loss of even a single contract has a significant volume and financial impact on our business.

The product characteristics of frontseating service valves also make the market particularly vulnerable to price competition from the dumped imports. Relatively few sizes and product forms account for a bulk of the market so that it's been easy for the Chinese producers to capture a large share of the U.S. market very quickly.

Because frontseating service valves are products made to OEM and industry specification, it is

relatively unimportant to the OEMs whether they use the product from one manufacturer or another or whether the product is produced domestically or by a Chinese manufacturer.

We compete for the same customers on the same products as the Chinese in the United States, and because the two Chinese manufacturers have qualified their products to the OEMs the competition for a contract is strictly on the basis of lowest price.

We directly trace our market loss of frontseating service valves to imports from China in a number of ways. There's no question that imports from China significantly undersell us in the marketplace. That underselling has allowed Sanhua and DunAn to directly take sales and market share away from us.

Between 2005 and 2007, we lost annual commitments from the vast majority of our U.S. customers on a one-to-one basis to the Chinese. The Chinese producers may argue that the OEM manufacturers are purchasing imports from China to have an alternative source of supply, but the pricing from Chinese imports is so low that five of the seven OEM manufacturers are purchasing frontseating service valves solely from one source of supply in China, either Sanhua or DunAn.

Prior to the Chinese entering the U.S. market, Parker was the sole source of supply of frontseating service valves for the six OEMs to which it sold these products. Consequently, pricing has been the determining factor of sales in this market, and imports from China have consistently and significantly undersold us throughout this period.

Over the past several years, the OEM manufacturers have become increasingly familiar with the Chinese products and the willingness of the Chinese producers to supply them at prices far below our own. We have been forced to defend our remaining business by aggressively lowering our pricing of frontseating service valves to our current customers, even if that means we will supply the product at a financial loss. Obviously we cannot continue to do this. You can review our questionnaire profit and loss statement to see the actual results.

Our difficulty in maintaining profitability on frontseating service valves can be attributed to only imports from China. The market is comprised of only frontseating service valves produced by either Parker Hannifin, Sanhua or DunAn. All of Parker's lost sales of frontseating service valves have been due to two Chinese producers and these producers only.

In other words, there are no imports of frontseating service valves from any other source except China.

If China's pricing continues at current levels, we will be forced to cease manufacturing of frontseating service valves and be driven from the market. As indicated in our petition, China has enough frontseating service valve production capacity to supply the entire U.S. market with its dumped product.

Given the capital intensive nature of frontseating service valve production, this perhaps more than anything explains why the Chinese industry has been so aggressive in its U.S. sales efforts in the last few years.

Since frontseating service valves are dedicated to the U.S. market, there is no other market that this capital investment could be directed towards. With that kind of capacity and the Chinese producers' pattern of pervasive underselling, Parker's position in the frontseating service valve market will continue to worsen. Thank you very much for your attention.

MR. DINAN: We'll now hear from Patrick Magrath of Georgetown Economic Services.

MR. MAGRATH: Thank you, Mr. Dinan.

Good morning members of the Commission staff, ladies and gentlemen. My name is Patrick Magrath, managing director of Georgetown Economic Services.

With me from GES today is Brad Hudgens, who was running around until very recently in the back trying to get our models of backseating valves and ball valves to show you just how dramatically different they are in terms of characteristics. I don't know if they're here or if they're coming. We'll see.

We are appearing today on behalf of Parker Hannifin Corporation, which, as you heard, is the lone remaining domestic producer of frontseating service valves or FSVs. Now, those of us who represent U.S. industries in these Title VII trade cases are bringing more and more cases against China in recent years, as you well know.

My firm alone, together with various legal counsel, currently have five active dumping investigations before you and the Commerce Department in various stages, each one naming China as a Respondent and four of the five naming China exclusively.

So someone like me and Brad look at a lot of

Chinese websites. Among other things, I am always struck by the Chinese companies' fondness for slogans and aphorisms. One Respondent in this case, Sanhua, states that it is, "The flower of technology, the flower of management, the flower of the talented," and that the particular division of Sanhua that makes FSVs is identified as, "The refrigeration and air conditioning kingdom."

Well, Parker Hannifin and we are here today to see that that doesn't become a total reality in the United States. If I may borrow a page from our opponents, I would like to call this injury case then "Complex Product Simple Injury." Hopefully the Commission will agree.

The staff and audience have been informed as to how complex this product is through Mr. Miller and Mr. Nelson, but from a trade case perspective the data that the Commission must collect and the determination it must make, this is among the most simple and straightforward cases I have done in the 30 years or so I have been analyzing ITC injury data.

There is one U.S. producer here, Petitioner Parker Hannifin. There are two -- only two -- subject Chinese producers, both of whom appear to be the exclusive importers of their products, so there are

only two importers, Sanhua in Ohio, DunAn in Texas.

Importantly, I think we can agree that for the foreseeable future there will be these two and only two foreign producers that supply the U.S. market, in addition to the one U.S. producer, due to the necessity of meeting stringent government mandatory standards for FSV performance and characteristics and a lengthy qualifications process in place by the air conditioning systems manufacturers.

As for the OEM purchasers of Parker and Chinese products, there is a small, finite universe of them as well that has been stable throughout the period of investigation -- seven -- that account for virtually all of the purchases of these products.

We estimate in our petition that this small number and identity of producers, importers and purchasers has not changed during the period 2005 to 2007. APO data that you have received may only reveal a small variation from these estimates, if any.

As we have heard, Parker has lost four frontseating service valve customers over the period, never had the business of one, and the final two, to whom Petitioner still sells, are both threatening to resource the product from China unless Parker meets

what *Business Week* no less has enshrined with the term "the China price."

The market in which the U.S. and dumped products compete is a simple one too. It is a zero sum game. You have the OEMs with their contracts, and you have either Parker or the two Chinese firms filling them. The contracts run from one to three years, as Mr. Nelson has testified. Contracts are renegotiated and rolled over.

In the period Parker has attempted to renegotiate four OEM frontseating service valve contracts, but lost all four to the Chinese competition, 100 percent to the Chinese competition. China wins. Parker's CLS division loses. One for one in the contracts. One for one in the FSV units shipped within the contracts. Simple zero sum lost sale.

Or Parker wins the contract, but not for all the units as before. Some of the units they are told will go to Sanhua or DunAn instead one for one, direct substitution, zero sum. China wins. Parker's CLS division loses. Parker's units shipped are diminished, replaced in that amount within the contract by Chinese shipments one for one. A simple one for one substitution.

This simple replacement of Parker's frontseating service valves has a number of implications in the injury investigation context, as simple and straightforward as the situation is. First, we can see that there is direct competition between the domestic like product and the subject imports.

Second, that there is a 100 percent overlap in that competition. Third, there is technical complete interchangeability of the products. That is, both Parker's FSVs and imports are produced to varying, but closely similar, and exact OEM specifications within a contract.

Finally, and I think most important for our purposes, even at this early stage there is a transparency of the size and the competition of the market here. Parker had these OEMs as customers as recently as 2005 in the period of investigation. Parker bid on the contracts. It knows what volumes it bid for. The competition is known. Two Chinese firms. The volumes lost in the contracts or when the contract rolled over is known to Parker.

Therefore, when we show you a chart on imports like Chart 1 we have a pretty good idea that these are what the imports really are, even though the

totals, as you guys know, is in a basket category or may be a couple basket categories.

The same with the total market, the total demand picture for frontseating service valves. The universe is known, and the import market share of the one or the two participants in the market is known as well. You notice that there's no vertical access, no numbers provided because of confidentiality concerns.

The subject imports volume, their increase in their market share over the period is significant. That's our opinion as Petitioner. But given these estimates, these accurate estimates of an increase in subject imports of over 300 percent in the period, and once again that's based on the OEM business that Parker gave up and the increase in subject import penetration to well over 50 percent. We firmly believe that the adjective significant applies here.

One observation on demand before we go to other issues. Demand declined somewhat over the period. I think your data is going to show that. If they want, Respondents may get around to attributing Parker's CLS division's injury to this decline in demand, not to imports from China. Please don't believe it.

Yes, there was a modest climb in demand over

the period, but there was no decline in demand for Chinese products at dumped prices. In fact, we estimate they increased threefold within this declining overall demand market.

You had a genuine bull market in fact for dumped products. Indeed, instead of being an alternate cause of injury, this diminished demand, a decline in the overall market only serves to exacerbate the injury caused by the one-on-one competition, one-on-one substitution of dumped imports for Parker's frontseating service valve products.

The trend in industry pricing has also been unfavorable for Parker. Parker's prices have gone up, forced up by fast rising raw material costs over the period. How fast are they rising? That's in Chart 3.

Parker's unit raw material costs as reported in the questionnaire response rose by well over 50 percent from 2005 to 2006 and then had an additional bump beyond that in 2007 of 20 percent. Going forward, Mr. Nelson informs us yesterday, such costs have risen by greater than 20 percent in the first two months of 2008 alone.

Although we are greatly limited in what we can discuss at this conference due to confidentiality concerns, quarterly comparisons show Parker's FSV

prices rising far less than cost. Also, Parker's frontseating service valve prices display a pattern of rising then falling back to below that of the previous quarter. These declines are noticeable especially in the fourth quarters of 2005 and 2006.

This stagnation or the increasing by only one or two cents a unit against the backdrop of the huge increase in raw material costs is of concern to Parker to say the least. This stagnation is especially noticeable in the small -6 model.

Again, Parker's prices, although they generally rose over the period, lagged far behind unit raw material costs, as you can see in Chart 3, which compares Parker's net sales in terms of average unit values, AUVs, with raw material costs and total costs of goods sold, COGS, per unit.

In short, the increase in Parker's FSV price as held down by subject import pricing was not sufficient to keep up with the rapidly increasing raw material costs. This price suppression was the reason Parker's CLS profitability collapsed in its FSV product line in 2006 and 2007.

The questionnaires that have been made available to you at this stage, which in this small universe appears to be everybody, all market

participants, also shows consistent underselling by imports from China of U.S. producer prices. In the confidential version of our postconference brief, we can be much more specific of course on this issue.

In short, as to the price effect of imports the data clearly show U.S. price suppression in the context of escalating raw material costs and other costs and a uniform underselling by reason of subject imports.

The impact of fast rising volumes and dumped imports from China directly substituting in this one-for-one for Parker's frontseating service valve products, the low prices of those imports and the price suppression that they have caused Parker all dovetail into the injurious impact on U.S. producer operations. That once again is reported in Parker's questionnaire response.

Again, this case is simple, the universe of market players here very small and the impact of a lost sale clearly a zero sum situation. Gains to Sanhua and DunAn over the period came wholly at the expense of Parker Hannifin's FSV operations.

Even at this early juncture we have a complete data set in this case. It shows for every injury indicated the injurious impact of this one-on-

one substitution that we have been talking about. What you have heard from Parker witnesses today is aptly reflected in the data they have submitted.

The vast majority of Petitioner Parker's production related variables for FSVs declined, and again these declines, production, capacity utilization, employment, were much more than that of the demand in the overall market.

Production of FSVs, their shipments, employment all witnessed substantial, double digit declines. Capacity utilization declined each year to what we feel confident the ITC will determine to be a clearly inadequate level. The shrinking capacity utilization, the increase in unused capacity, is graphically portrayed in Chart 4.

The financial information supplied by Parker followed the same severely declining trend and is highlighted, if you can call it that, by a precipitous drop in profits on the FSV product line in 2007 to well below break even levels, and that is our last chart, Chart 5. We will be allowed to go into specifics in our brief once again.

All right. Marrying up Parker's value data with that of its cost provides ample evidence of the price suppression that we saw and we've already

discussed and is graphically portrayed again in Chart 3. Yet another of the measures that the ITC typically analyzes, the cost of goods sold ratio to net sales, also rose each year of the period and comes alarmingly close to 100 percent in 2007.

In other words, Parker was having trouble getting prices from OEMs on their FSV sales that covered only their direct cost and made no contribution to SG&A. Parker estimates the Chinese import market share doubled from 2005 to 2006, then almost tripled in 2007 to well above half of the total market.

It was these increased volumes at dumped prices that our small universe of large purchasers used to suppress the prices on the rapidly dwindling shipments of FSVs that the OEMs still gave to Parker in the last part of the period.

Given the across-the-board significant declines in the reported data, further injury going forward, the threat issue is obvious. Again, since any meaningful threat analysis is based on the data that these two Chinese producers have submitted, there's nothing specific that we can go into here in a public forum.

To reiterate, the foreign producer database

is also small in number, two, and will remain so given the OEM qualifying process and government mandated standards that must be met. Therefore, we respectfully suggest the ITC analyze closely any used capacity reported by Sanhua and DunAn and any projections by these Respondent producers in what has been reported as exports to the United States and other markets.

Since FSVs are all made to different but closely similar OEM specifications, the production modules in place at Sanhua and DunAn have the flexibility to adapt to OEM demands, differing OEM requirements and take what FSV sales Parker is still hanging onto going forward.

Indeed, the Chinese are part of the negotiations that Parker is going through now with its remaining OEM customers. Parker tells us its two remaining OEM accounts for FSVs are both threatening to drop Parker in favor of either Sanhua or DunAn if Parker's FSVs do not meet the dreaded China price.

The Parker CLS division faces an involuntary and total exit from this market absent relief in this case. That is the trade law definition of a "real and imminent" threat of continued injury. So in conclusion, complex product simple injury.

That concludes my testimony except to say that my emphasizing the simplicity of this injury analysis in no way is intended to minimize the effort of the ITC staff. Among the unusual aspects of this case at this point is that the parties have been given an almost complete record of all market participants and their data through the period to use at the staff conference. That's never happened to me before, so the staff is to be commended for this effort.

Thank you.

MR. DINAN: Thank you.

This is Donald Dinan for the record. I would like to address in my comments two issues, the indicia of injury and the like product issue.

I believe as the evidence has shown that the indicia of material injury or the threat thereof is clearly up in that we have lost sales. There has been significant decline in sales in the domestic industry. Lost profits. Profits have collapsed and are now negative.

Lost customers. Parker has lost four of its six OEM customers, has lost part of the business to another and is on the verge, as threatened, with losing its remaining business from those two customers. Unused capacity. Capacity utilization has

now fallen to below sustainable levels.

And finally price suppression. U.S. producer prices are severely depressed, particularly exacerbated and specifically shown by the fact that the raw materials that make up the valves, brass and copper are rising rapidly on the world markets where everyone, both the Americans and the Chinese, have to buy their brass and copper.

As for like product, it is clear that the merchandise in this case, that the like product are frontseating valves, FSVs. There are two other types of valves, what's known as backseating valves and ball valves. They are completely distinct products.

FSVs are service valves that are used to isolate sections of air conditioning systems during installation and servicing and to permit technicians to provide refrigerant charging and evacuation capabilities.

As stated, in addition to the FSVs there are two other types of service valves used in the United States, the BSVs, backseating valves, and the ball valves. BSVs and ball valves do not have the same identical physical characteristics and uses of FSVs. As for interchangeability, the valves are not interchangeable.

On channels of distribution, FSVs are sold primarily to all the major OEMs that produce residential air conditioning units whereas backseating valves and ball valves are only sold to certain OEMs to be installed and used in high end air conditioning and refrigeration units.

Both customers and producers perceive distinct differences between FSVs, backseating valves and ball valves. FSVs are the lowest cost service valve and are chosen as the standard valve for OEM standard units. BSVs and ball valves are perceived as a higher cost, premium product used only, if at all, in high end air conditioning models and used primarily in refrigeration units, a completely distinct product.

On the manufacturing facilities, Parker manufactures its frontseating valves on dedicated machinery and dedicated lines. The other valves are not manufactured on the same lines or the same machinery and indeed have their own dedicated lines and dedicated machinery.

Price. As should be clear from the descriptions above, because of the cost structure and production processes that differ so dramatically frontseating valves are much less expensive than backseating valves and ball valves, which run two to

three times higher in price than frontseating valves.

Finally, component parts. We have the valves here. Perhaps the question we can explore, but as is readily obvious, and this is a backseat valve, a ball valve, and we look at the FSV, the frontseating valve. Clearly the components are completely different.

Therefore, in conclusion, taken as a whole the factors above demonstrate that backseating valves and ball valves are not within the same like product as FSVs. Backseating and ball valves are produced to different specifications and are used in different applications, as is reflected in their different physical characteristics and pricing structures.

FSVs are produced on different dedicated equipment and machinery than either backseat valves or ball valves, which have their own dedicated equipment and machinery. There is no interchangeability between the valves due to their engineering and design requirements, and the price and cost of the valves is markedly different.

Therefore, FSVs are a separate like product from BSVs and ball valves and are the merchandise involved in this investigation. Thank you very much.

MR. CARPENTER: Thank you very much, panel,

for your presentation. For the record, we will accept your slides and charts as an exhibit to your presentation, and we'll have them attached to the transcript.

I just have a few questions to get started. First of all sort of a technical question related to the like product. Mr. Miller and Mr. Dinan, you had both indicated that the FSVs are produced on dedicated equipment and that the BSVs and the ball valves also are produced on dedicated equipment.

Is that equipment different or is it the same? Are there different machines involved?

MR. MILLER: There are different machines involved, totally different assembly lines and different types of equipment that manufacture these.

MR. CARPENTER: Okay. Thank you for that clarification.

Mr. Nelson, could you give us a sense as to how the Chinese producers got into this market in the first place?

MR. NELSON: Yes. Initially the Chinese were brought in by some of our customers as the possibility of an alternative source of supply.

MR. CARPENTER: And did you indicate in your testimony what the typical period would be for them to

meet the qualification requirements by the OEMs?

MR. NELSON: Typically on a brand new product it would be about a year time period.

MR. CARPENTER: Okay. You had indicated that some of the OEMs now, even though they had indicated their desire to source at least partly from China, was to have an alternative source of supply but now they are single sourcing from either the one Chinese producer or the other. That's your understanding right now, I guess.

MR. NELSON: That's correct.

MR. CARPENTER: Also a clarification. You indicated -- Mr. Magrath, I believe it was you; perhaps others too -- that Parker has lost four of the OEMs. Did you lose their business entirely by the end of the period of investigation?

MR. MAGRATH: Yes, by the end of the investigation period we had lost all of them completely.

MR. CARPENTER: I'm trying to avoid getting into any confidential information, but if you're uncomfortable with answering any of these questions feel free to postpone that until the brief.

MR. MAGRATH: Thank you, Mr. Carpenter. Apparently the Chinese had a --

MR. CARPENTER: Mr. Magrath, I don't think you're on.

MR. MAGRATH: I'm sorry. Thank you. Apparently the Chinese had a change of strategy as to alternate supply. I mean, it's alternate supply if Mr. Nelson's on the line negotiating, but it's not an alternate supply once they go to China.

MR. CARPENTER: One thing I think might be helpful since there are so few OEMs in this industry and you've sold to all or most of them during the period of investigation, if it would be possible for you to give us the dollar value of your sales to each of the OEMs during 1995, 1996 and 1997 so we can see how your business has declined to each of those companies? I think you said one of the OEMs you never sold to at least during the period.

MR. MAGRATH: Not during the period. Right.

MR. CARPENTER: But for the others, if you could provide that in your brief I think that might be helpful.

MR. MAGRATH: Correct me, Mr. Carpenter. You said 1995, 1996 and 1997. Did you mean 2005, 2006 and 2007?

MR. CARPENTER: I'm sorry. I'm 10 years behind. I've been here too long. 2005, 2006 and

2007. Thank you.

I would ask the Respondents' counsel for Sanhua and DunAn to provide the same information, please, for the three year period covered by the investigation.

Mr. Nelson or anyone else, perhaps you could respond to this. I realize that your testimony has been that the loss of these sales was due solely to the lower price of the Chinese product, but just to probe that a little bit further can you think of any advantages that the Chinese producers might have over you in terms of service or delivery or any other nonprice factors?

MR. NELSON: I can't think of any advantages they would have.

MR. CARPENTER: Okay.

MR. HUDGENS: Mr. Carpenter, I'd like to respond to an earlier question about the shipments to OEM by year.

We submitted those data in response to a Commerce question that we have served you on as a service copy, so the answer to that question, and we can point that to you, but it's in this submission that we've already submitted to Commerce.

MR. CARPENTER: Okay. Excellent. Thank

you, Mr. Hudgens.

One final question. You indicated that there was a modest decline in demand over the period. I realize that this is a product where there's no significant aftermarket and so I assume that your sales of these valves pretty closely track sales of air conditioning units and probably tend to follow the economy and new construction. Do you have any further insights on that?

MR. NELSON: Well, actually the valves themselves don't really have any aftermarket value, but the units that they're being sold into have an aftermarket service.

When your air conditioner unit dies you have to buy a new condensing unit and replace it in your house.

MR. CARPENTER: Right.

MR. NELSON: So there is that aftermarket service where all those valves are used, and about 70 percent of the total market is aftermarket service units that are used for replacement of existing homes, so as far as directly following the housing market it's not as severely impacted as the housing market has been.

MR. CARPENTER: I see. Thank you. And did

I read somewhere that the general turnover in air conditioning units is maybe about 15 years on average?

MR. NELSON: I would say 10 to 15 years, yes.

MR. CARPENTER: Ten to 15 years.

MR. NELSON: Depending on where it's located. Yes.

MR. CARPENTER: Okay. Thank you very much for those answers.

MR. MAGRATH: So in other words, in short it would be a mistake to overemphasize the decline in residential housing, the difficulty residential housing is going through. For that reason, 70 percent of the units sold are basically replacement units where they're replacing one that was already there. That tends to smooth out demand.

And second, that all new homes, even like starter homes, now have almost always split air conditioning units so within however many houses are being built. Whereas in the 1950s maybe 20 percent had these systems now almost all these homes have these systems, so both of those facts tend to bully up and to sort of mitigate the decline in residential housing that's happened recently.

MR. CARPENTER: Then one follow-up question

just in terms of demand for your product. You indicated that it's declining somewhat over the last three years, but what would the long-term trend be in your opinion or what has it been for the last 10 years?

Do you have any projections in the future? Do you expect it to be pretty stable or actually increasing over the long term?

MR. NELSON: We would expect it to be fairly consistent from this time period now going forward for the next couple years.

There was a spike a couple years ago because of the SEER 13 requirement that drove up a large build prior to that SEER 13 requirement kicking in, which kind of gave a little bit of a higher spike back about two and a half years ago, but the level has been pretty consistent around anywhere between six to seven million units per year.

MR. CARPENTER: Did that change in the SEER requirement have any impact on demand or obsolescence of the product in this case?

MR. NELSON: No, not really.

MR. CARPENTER: Okay.

MR. NELSON: No.

MR. CARPENTER: Okay. Thank you very much.

MR. DINAN: Mr. Carpenter, I'd like to make just one point, which is somewhat of a semantic point but may be substantive, and that is on the use of the word interchangeability. That word tends to be a term of art in trade law.

I think that the evidence will show that with the Chinese entry into the market that really what it was, the OEMs were looking for a replacement of supply, that evidence being that before the Chinese entered the market for Parker's OEM customers they provided 100 percent of the units. When the Chinese came into the market for the four that they've captured they provide 100 percent of the units.

So I just wanted to make sure that that point was clear. Thank you.

MR. CARPENTER: Thank you, Mr. Dinan.

I'll turn next to Ms. Lofgren.

MS. LOFGREN: Hi. I'm Dana Lofgren from the Office of Investigations. Thanks for being here and giving us your testimony about the industry.

I may repeat some questions I asked you at the site visit, and that's only to get that information on the public record. Of course, if it's confidential you can submit it in your postconference brief.

My first question has to do with how you produce frontseating service valves. I was wondering whether your production has changed, if at all, during the period of investigation.

MR. MILLER: During the period of investigation we continued to take costs out, tried to take additional labor out of the process. We've automated the processes pretty dramatically as we go through years of things.

There's been some additional savings through this period of investigation with some maybe further automation, cost saving type things.

MS. LOFGREN: And does your production differ from production in China or what you know of it?

MR. MILLER: What we know of it, it's dramatically different. We're very automated and use very little labor. Labor is a very small content of our cost.

From the lines that we've seen and people that have toured the facility, they are using a significant amount of labor, significant manual braising operations and manual testing and assembly.

MS. LOFGREN: Okay. From what was said this morning, these frontseating service valves are used in

residential split systems. Are they used in commercial air conditioner units or anything other than a split system as it's being called?

MR. MILLER: Very, very rarely would they be used outside. I don't even think today they're even used in ice machines any longer. Perhaps a few walk-in cooler condensing units may use one, but it's very irregular.

MS. LOFGREN: Okay. Are these produced to order for your OEM customers, or can you produce a generic product that you can then --

MR. MILLER: No. Each valve is a specific part number for a specific customer, and they do vary quite a bit.

MS. LOFGREN: And how much time is involved in switching from a valve for one customer to a valve for another customer?

MR. MILLER: The setup time is pretty short, somewhere in the neighborhood of 10 minutes or less.

MS. LOFGREN: And have you seen any changes in the constitution of your customers? Have any gone out of business or consolidated?

I know I read about York and Johnson becoming one company. Has your customer changed at all?

MR. MILLER: The customer locations haven't changed. There has been a change in ownership of Trane that is no longer owned by American Standard, which is owned by Ingersoll Rand, and the one that you mentioned with York and Johnson Controls.

MS. LOFGREN: Okay. Your company was founded you said in 1918, but when did Parker enter this market for frontseating service valves?

MR. MILLER: Around the mid '70s. Somewhere around 1975 we began to design and test and get qualified on these.

MS. LOFGREN: Okay. You had mentioned earlier, someone on your panel mentioned, the change in the SEER level from 10 to 13. That was in 2006? Is that correct?

MR. MILLER: Yes.

MR. NELSON: The actual date was 2007 that SEER 13 took effect, so there was a prebuild in 2006 to make SEER 10 level units before they had to go to the SEER 13 level construction requirement.

MS. LOFGREN: So your customers were sort of stockpiling units that didn't meet the new level that was coming?

MR. MILLER: Right. They had to stop manufacturing sometime in January, the middle of

January, but they could sell existing units on hand that were the older SEER.

MS. LOFGREN: What does the SEER level have to do with the actual valve, if anything?

MR. MILLER: Nothing.

MS. LOFGREN: Okay. So your valve didn't change based on the new requirement?

MR. MILLER: Right.

MS. LOFGREN: Okay. I think those are all my questions at this point. Thank you.

MR. CARPENTER: Ms. Hughes?

MS. HUGHES: Most of my questions primarily have to do with like product. First of all, does each model of the air conditioner have its own specific specifications for FSVs? How does this work?

MR. MILLER: Yes. Each customer has its unique product. They will determine orientation on the valve core straight, curve 45 degrees, whether it's a brass cap, a plastic cap. They'll determine the location of the copper and the length of the copper, whether it's belled or not belled.

They'll determine whether the stem is open or closed, and they'll also include what type of mounting is required within the hulls. They'll be mounted here on the bottom, on this plane versus that

plane, so there's significant differences for each unit and at each customer.

MS. HUGHES: So even though say Carrier has five -- I have no idea how many they would have. Just for the sake of argument, five models for a residential unit basically the same size or something. They might require five different FSVs?

MR. MILLER: That is correct.

MS. HUGHES: Okay. And of course it would vary. Trane would have its own, and of course Carrier and York, et cetera. Okay.

Someone on the panel had said that backseating valves -- are they BSVs?

MR. MILLER: Yes.

MS. HUGHES: -- had different geometry than the frontseating valves. Can you explain a little further exactly what that means?

MR. MILLER: Okay. You can see here this is a backseating valve.

MS. HUGHES: Okay.

MR. MILLER: Okay. First of all, it has mounting up onto the side. The main difference is the stem. I don't know if you can see it. It's actually made of steel and has a sealing surface down here on the front side of the stem and also a sealing surface

up here on the back side of the stem, okay?

Typically you see here in this cutaway there's no valve core used in here so they can get quicker evacuation. You would see a valve core stem in this one as well.

MS. HUGHES: Which has the quicker evacuation?

MR. MILLER: The backseating valve.

MS. HUGHES: The backseating.

MR. MILLER: Okay. The installers view this as a premium valve. It's typically used in high end compressor valves, refrigeration valves. They view it as a higher quality type of valve.

MS. HUGHES: Because of what it's made of or its --

MR. MILLER: Because of the functionality of the dual cutoff.

MS. HUGHES: Okay.

MR. MILLER: It seals in the front and in the back side.

MS. HUGHES: Okay. And then could you explain the ball valve to the extent you just explained the backseating valve?

MR. MILLER: Sure. The ball valve, you know, originally in the refrigeration industry is a

straight through flow path of the refrigerant. It's a quarter tread actuation where the ball actually -- there's a hole in the ball and then it turns to block off and seal.

You can see this is the actuation of the ball valve. You can see the seal in front and in back, and in our case springs actually hold the ball against the seal, okay, so the big difference here is to be able to give you high efficiency flow on the suction side of the unit.

MS. HUGHES: It's a one-way flow deal?

MR. MILLER: Yes.

MS. HUGHES: Okay.

MR. MILLER: Yes. And with no pressure drop, the pressure drop through a traditional valve, the flow path has to go this direction and make a Z so that the less pressure drop gives -- it gives the ability for the manufacturer to reduce pressure drop and improve efficiencies.

MS. HUGHES: And what is the ball valve made of?

MR. MILLER: The ball valve is made of four ounce steel, copper, teflon and nylon and stainless steel springs and retainers.

MS. HUGHES: Okay. And the FSV is copper

and brass and anything else?

MR. MILLER: An O-ring.

MS. HUGHES: An O-ring.

MR. MILLER: Yes.

MS. HUGHES: Okay.

MR. MILLER: An O-ring that's located on the stem right here.

MS. HUGHES: Okay. Can the ball valves be substituted for the FSVs as well as the backseating valves can be substituted?

I know you don't like to do that. I'm just trying to explore whether it is possible.

MR. MILLER: The mounting is totally different. The end copper for the units would be totally different. You'd have to design specifically for that type of valve that you're going to use.

MS. HUGHES: Okay. But you wouldn't have to do that for a backseating valve?

MR. MILLER: No.

MS. HUGHES: It would just be more expensive?

MR. MILLER: Well, the backseating valve you would have to design specifically for that.

See, it mounts totally different. In the actuation core you have to allow for the stem to be

able to turn at a high plane versus a lower amount, so it's going to be quite a bit different. More than likely it will not fit where the existing frontseating valve is.

MS. HUGHES: So the backseating valve basically serves the same purpose as the frontseating valve, but in a more expensive unit? Is that it?

MR. MILLER: No. It actually offers more functionality of the valve as well --

MS. HUGHES: Okay.

MR. MILLER: -- and gives it better performance as far as charging and servicing options because you can't isolate this charge core.

MS. HUGHES: Okay. And what about the ball valve? When is that used?

MR. MILLER: The ball valve is used -- typically the backseating valve is used in refrigeration applications, not commercial. I mean --

MS. HUGHES: Not residential.

MR. MILLER: -- not residential. The ball valve's primary use is to increase efficiency in the suction line only.

MS. HUGHES: In what units? What kind?

MR. MILLER: In residential units.

MS. HUGHES: Oh, really?

MR. MILLER: Yes. And let me clarify myself. The primary use for ball valves is in supermarket refrigeration systems for shutoff and isolation.

MS. HUGHES: So I'm not likely to have one in the unit that's in my backyard? Is that what you're saying?

MR. MILLER: Right.

MS. HUGHES: Okay. Although in a pinch because it's not designed for it, I couldn't even use it if somehow they ran out of frontseating valves or something and need one? Is that the deal?

MR. MILLER: The OEM manufacturers would not use it.

MS. HUGHES: Okay.

MR. MAGRATH: Yes. Ms. Hughes, they would have to give you a new air conditioning unit. They would have to totally redesign the air conditioning unit you've got in order to stick one of those in that's two or three times the price of the frontseating service valve.

MS. HUGHES: Okay. All right. So, in your postconference brief, because I'm sure it's confidential, and you probably wouldn't know anyway, could you give me a breakdown of the price differences

between the frontseating, backseating and the ball valves? Okay?

MR. MAGRATH: Yes, we will.

MS. HUGHES: All right. And it's clear to me, but just to clarify in case I just misunderstood everything, that you view all three of the valves to have different uses? Is that the case? Basically. So this I guess is primarily now for Mr. Dinan since he would understand the technicality of the like product issues.

I heard you say that you believe that there should be one domestic like product and that's comprising, you know, the large and the small, whatever, frontseating valves, period. So you wouldn't want to see the backseating valves or the ball valves in there, is that correct, in the definition?

MR. DINAN: Well, it's less that we would not want to see them but more in the sense that to be correct of the like product that the FSVs are separate and distinct products and that it's the FSVs that should be the sole subject of the investigation and the input penetration. And so clarifying, on your question when you said in a pinch if they ran out of FSVs, assuming the question you couldn't go out and

attach one of these -- I'm holding the ball valve now for the record -- to the unit. And in fact, if one wanted to do so the OEM would have to go back to the drawing board and spend vast sums of money to redesign a whole new unit. Well, nobody is really going to do that.

And again, in the marketplace the FSVs satisfy one distinct part of the market which is the split, residential split system. These other more expensive and, quite frankly, higher end, higher capability, as Mr. Miller said, are used in the commercial areas, the refrigerant area with much larger capacity needed. So for those reasons that is why we believe that the like product should be the FSV.

MS. HUGHES: Okay.

MR. DINAN: As opposed to what we'd like or not like.

MS. HUGHES: Okay. All right. So there are two FSVs per unit; is that right? When I talk about unit I mean the outside condenser thing that's in my backyard.

MR. MILLER: That's correct.

MS. HUGHES: Okay. All right. So would one be a large and the other be a small or --

MR. MILLER: Yes.

MS. HUGHES: I know one's on a suction line and one's on some other line.

MR. MILLER: Yes. You will have a large suction line, typically there's three sizes of these, typically you will see the dash 14 or the dash 12. And then typically you will always see a 3/8ths valves here for the liquid line.

MS. HUGHES: Okay. So we're not going to substitute one of those for the other?

MR. MILLER: No.

MS. HUGHES: Okay. So you would want one, you believe there should be, not whether you want particularly, there should be one domestic like product encompassing both the large and small not defining them separately, if you know what I mean, two separate like products?

MR. DINAN: No. The large and the small, in other words the dash 6, the dash 12, the dash 14 should be considered in the one like product definition. And in the brief we can go through much more detail. But when you get into the indicia, what the customer perception is, what the use in the market is, etc., but just very quickly it's because they're all being sold together. The air conditioner doesn't

work unless you have the two. And as you can see, really the major difference is just in the size and the size major difference being that one is putting through a gas and the other is putting through a liquid. But they are made on the same machines. It's a functionality of doing the same thing, i.e., the hold of refrigerant and the servicing.

And they are perceived as a like product by customers and by the industry because you essentially would almost never buy one. I mean you need two for it to work.

MS. HUGHES: Okay. all right. So -- I'm sorry.

MR. MAGRATH: Yeah, Ms. Hughes, you got a good analogy going here about your backyard and your air conditioning unit. But, you know, these valves are highly technical and they have to jump through a lot of specification hoops. You or I could not go to our backyard and swap out our frontseating service valves for something else or even for other frontseating service valves. You have to have a trained technician come out and service it.

MS. HUGHES: When I talk about swap out I am so not talking about me. No, I meant the trained technician swapping out.

MR. DINAN: And indeed these are actually very highly controlled products. And it's not -- you can't go down to a hardware store and buy one of these, you have to have a license --

MS. HUGHES: Okay.

MR. DINAN: -- to be able to correct this.

MR. MAGRATH: And that's why the market is going to stay with three players and not other countries or other producers aren't going to come into this market any time soon.

MS. HUGHES: Okay. All right, so in the postconference brief because I hear logically what you are saying but I am not a commissioner, if you could spell out why you believe this should be one domestic like product with respect to the ball valves, the backseating valves excluded from the definition that would be very helpful, going through all the factors. And do the same thing for the large versus the small. I think that is something the Commission would want to see. Okay.

Now, I understand that the FSVs aren't used in 100 percent of the residential units. Is that correct? Or am I wrong there?

MR. MILLER: No. On the high end, high efficiencies they will typically use a ball valve.

MS. HUGHES: Okay.

MR. MILLER: Or in one manufacturer's case they will use this to try to designate a premium unit and sell it at a premium price. Backseating valve, sorry.

MS. HUGHES: So what does need a prime unit, would that just be a bigger house or something? Why would need that, why would you need a premium unit I guess?

MR. MILLER: They would typically, an OEM would typically sell premium units to, you know, up-sell, to be able to provide more features, quieter unit, a longer warranty perhaps, different materials of construction.

MS. HUGHES: Doesn't mean it's more energy efficient though?

MR. MILLER: Can be. It can be or it can't be.

MS. HUGHES: But not necessarily, okay.

MR. MILLER: The SEER rating would tell you that.

MS. HUGHES: Okay. I'm asking some of these questions because I, unfortunately, was unlucky and did not have my air conditioning unit anywhere near 15 years. So I've gone through some of this stuff, know

a bit about the SEER ratings. Luckily for you guys it wasn't an FSV problem. But anyway, okay.

Now, the qualification process -- oh, I'm sorry, one more with this dead horse on the valves, what exactly is a coupling valve? From something I read I have the idea, which is probably wrong, that FSVs came along and replaced coupling valves or something, you know, as things progressed in engineering design. But explain to me what exactly a coupling valve is, was, did?

MR. MILLER: Sure. A coupling, Elcort designed and sold a coupling, it still does today, into the mobile home market. We call it a 5780 but it's actually a two-part coupling that is used in a pre-charged line set. The two coupling halves come together, there's a brass diaphragm that splits and creates the connection. So it's a braceless connection but unfortunately there is no shut off capability. So the industry has moved away from that coupling because you want to be able to shut off the valve to retain the refrigerant and not leak any to the atmosphere. So you have to take a lot of steps.

Typically the mobile home industry will use that coupling today to avoid flames in a mobile home.

MS. HUGHES: Okay, thank you. Okay, I have

an idea from Ms. Lofgren's trip to your plant how many shifts are run a day but I don't want to say because I don't know that this is confidential or not. But I am not clear -- let me back up, I am not clear just how much the housing market downturn has affected your, the demand for your product. I had kind of assumed there would be some coincidence in the decline or the like, when the market was booming that might mean more business for you guys. But based on what you said a little while ago I am not clear that's the case.

Is the downturn in the housing market to start with any reason for the decline in demand for FSVs or no?

MR. NELSON: Actually not directly for the decline in the demand for FSVs. As I mentioned earlier that there is a lot of the business that we supply to is for replacement units, as you are familiar with from your experience. And I mean the housing market has gone down slightly. But if you look at the drop in our shipments compared to the rise in the Chinese imports during this period of investigation you will see it is directly not attributed to a decline in housing at all.

MS. HUGHES: Okay. So talking about qualification and certification, do the OEMs have to

be certified to buy the FSVs? It seems I saw that somewhere but maybe I'm unclear.

MR. NELSON: No, we'll sell them to anyone who buys.

MS. HUGHES: Okay.

MR. NELSON: No, I'm kidding. There's a qualification process and then typically there is a specification that is put together that lists approved suppliers, a list of criteria on dimensional, operational, functional requirements that have to be met. And all these tests are continually monitored throughout the production process to make sure that we are meeting and staying within tolerance of all those conditions on specifications.

Usually we work very closely with these OEMs in conjunction with them to have our parts meet the requirements that they need to have so that their systems meet the operational conditions.

MS. HUGHES: Okay. And you told Mr. Carpenter, or someone did, that it takes about a year for this process to be completed?

MR. NELSON: Typically that's --

MS. HUGHES: Typically.

MR. NELSON: -- I would say that's starting from scratch it would be probably a year, slightly

over that.

MS. HUGHES: Okay. That qualification process is there any environmental process involved in that or is there a separate requirement to satisfy environmental concerns or no?

MR. NELSON: There's probably the biggest thing that would have an environmental impact would be external leakage of the product, of a refrigerant because you are not -- you are looking for the release of greenhouse gases. So you would have as far as an environmental requirement and also in order to keep the unit functioning you would have a leakage, external leakage specification. That would be probably the most critical compared to any type of environmental standards.

MS. HUGHES: But that is something you would be working with the OEM on then; right?

MR. NELSON: Right.

MS. HUGHES: Okay.

MR. NELSON: Yeah, we have some test criteria, different operational simulations that would show how the valve would perform over its expected life.

MS. HUGHES: Okay.

MR. DINAN: Okay, and those issues, just to

just to enhance on that, the way it works with the environmental concerns and meeting the government environmental standards and regulations it's the OEM that is responsible for doing that. Therefore, the OEM through this qualification process and the design specifications builds into their requirements that Parker, or any valve manufacturer, has to meet so that that valve when put into the air conditioning satisfies the OEM's responsibilities. So it's kind of a two-stage process if you will.

MS. HUGHES: Okay.

MR. DINAN: And their concerns, of course, is to meet the design criteria.

MS. HUGHES: Okay, thanks for explaining that.

Now, how are your inventories, are you extracting up in light of what you're describing with the imports coming in or no?

MR. MILLER: No. We typically build the customer orders and have fast lead time. So we, once we receive the orders we build them quickly. So we do not have excess inventory sitting around on brass and copper components.

MS. HUGHES: Okay.

MR. MILLER: Or finished product.

MS. HUGHES: All right. Well, how long is the turnaround between when you'd receive an order and when you'd be able to ship it out?

MR. MILLER: Typically we respond within seven days, one week.

MS. HUGHES: Oh, okay. Now, I'm obviously going to ask respondents the following question, but to the extent that you know it do you know if there are any quality problems associated with the Chinese products or no?

MR. NELSON: We're not aware of any.

MS. HUGHES: Okay. And I assume based on something Mr. Nelson had indicated earlier your contracts may include need or release provisions. Is that what's going on, the reason you're not able to renego -- feel free to answer in the postconference brief if you need to -- but I am kind of wondering why when you are trying to negotiate, renegotiate your contracts is it just that you can't meet, you know, the Chinese price or is there something else going on there?

MR. NELSON: We can address that in the postconference review.

MS. HUGHES: Okay.

MR. NELSON: But I would say it's strictly

pricing is --

MS. HUGHES: Okay. All right, got you.

Okay, I felt in the postconference brief if you could just explain what you believe the pertinent conditions of the competition are that the Commission should take into account when it analyzes the impact of the subject merchandise.

And I am sure you will do this, but just to get it on the record, provide a detailed analysis of the volume, the price and the impact factors that the Commissioner typically explores.

Also, if you could explain in your brief how the Commission should apply the Bratsk Aluminum Smelter replacement/benefit test in this investigation if you believe it applies at all.

And lastly, if you could analyze the threat factors the Commission has to consider in its analysis.

Thank you very much.

MR. CARPENTER: Ms. Bryan?

MS. BRYAN: Thank you. Good morning, I am Nancy Bryan from the Office of Economics. Thank you for all the information you've provided so far.

I'd like to first touch on seasonality for a little bit. I guess I've heard that there is some

seasonality in this, meaning more in the second quarter or less in the fourth quarter. But could you touch on how that might affect pricing, what we might see in the pricing data?

MR. MILLER: Typically the pricing is done on a one- to three-year contract based on annual volume. Seasonality doesn't play an impact there at all in the pricing function. But there is seasonality within the business. Typically 60 percent of the business will happen between January and May and then 40 percent from there out.

MS. BRYAN: Okay, thank you.

Related to the raw materials situation I understand about the, how the pricing of raw materials has increased and that this is a global phenomenon, that I understand the Chinese producers also face similarly rising costs. So would we expect then to see Chinese prices moving at about the same time and in the same direction as U.S. prices?

MR. NELSON: Yeah. The raw materials that are basically almost 100 percent of the product are world-traded commodities so they would have the same prices of those raw materials that we would. And we would expect to see the same impact from their raw costs as what we have.

MS. BRYAN: Right. Okay, thank you.

And also in terms of the brass and copper and any other raw materials you use have you experienced any shortages or trouble getting supply of those?

MR. NELSON: No. No, we have not.

MS. BRYAN: Okay. To your knowledge has the exchange rate had any effect on the prices that you've seen of the imports?

MR. NELSON: Not that we're aware of.

MR. MAGRATH: You know, Ms. Bryan, my organization does work for people who are trying to get Congress to look at the undervaluation of the Chinese renminbi and issues of currency manipulation. And the Chinese have started to revalue the renminbi but it is very small what they have done so far in terms of how far most economists' consensus opinion is that it is undervalued. So the revaluation of it has been very small so far. And it has not seemed to affect dumped prices in this market.

MS. BRYAN: Okay, thank you.

Okay, really quickly to kind of touch on this high end premium air conditioning for residential purposes, have you seen an increase in demand for these lately or has it been a small part of the market

constantly over the period of investigation?

MR. NELSON: Yeah, I would say through the period of investigation the percentage of your premium high end air conditioning units has remained relatively continual percentages of what all units purchased are.

MS. BRYAN: Do you have any sense of the market share that they account for of the total residential air conditioning units?

MR. NELSON: I don't know that off the top of my head.

MS. BRYAN: Okay.

MR. DINAN: We can develop that number and we'll put it in the brief.

MS. BRYAN: Thank you.

MR. MAGRATH: To put it in the brief you should know that the backseating valve is only used on the very, very high end air conditioning units by one manufacturer, one OEM only. And the ball valve is restricted as well. So they're much less, much less than 50 percent of the market, less than a quarter of the market. But we will provide that, the data in the our posthearing brief.

MS. BRYAN: Okay, thank you. That would be great.

Also in terms of the price difference between the FSVs and the BSVs and the ball valves I think you've mentioned that the price difference can be two to three times as high as the FSVs. Does this price gap, I mean has that price gap remained constant over the past few years and do you expect it to remain that or has there been a widening or narrowing of that gap?

MR. NELSON: It's remained relatively constant. The prices have all stayed relatively the same and the materials of construction have stayed the same.

MS. BRYAN: Okay, thank you.

Have you ever experienced any trouble supplying or meeting complete orders to any of your customers over the period of investigation?

MR. MILLER: Typically no. The only time we would have issues is if the customer had a drop-in order that wasn't scheduled, maybe an inventory loss or something, where we would help them maybe move it out a day or two, something like that. But typically the answer, that would happen very few, maybe once a year.

MS. BRYAN: Thank you. I think that's all I have for now. Thank you.

MR. CARPENTER: Mr. Yost?

MR. YOST: Good morning. And my name is Charles Yost, I am with the Office of Investigations. And first of all I want to welcome you all to come here, and appreciate your testimony very much.

I have a couple of questions. Mr. Miller, you had testified regarding the movement cost savings, and I think you had mentioned specifically automation in order to reduce labor costs. Were there any other aspects of improving efficiencies? Did you use less raw materials in producing frontseating valves, for example, or, you know, in terms of movement by other industries to lightweight components, was this part of the movement towards efficiency or something like that?

MR. MILLER: Speaking to our manufacturing?

MR. YOST: Yes, sir.

MR. MILLER: During the period of investigation I don't believe that we took any additional materials out. Most of it was already designed as lean as possible going in. So there wasn't any materials removed or alternate components used. It was standard components have been used for several years.

MR. YOST: So the part specification

basically didn't change, all we're seeing is a decrease in the quantity of units produced?

MR. MILLER: Correct.

MR. YOST: Okay. Was there anything else in terms of improving efficiencies in your through-put through the plant other than the automation?

MR. MILLER: Not during this period of investigation.

MR. YOST: This period you mean 2005 - 2007?

MR. MILLER: Right, right.

MR. YOST: I noticed, I mean I think you had testified that the quantity of units produced has decreased significantly. What's happened to the machinery?

MR. MILLER: We've idled the machinery, idled the capacity or taking production, limiting the number of shifts that we run it.

MR. YOST: Okay. You haven't moved any of that machinery to the production of other types of valves or other products?

MR. MILLER: No. No, we haven't.

MR. YOST: Okay. Could you talk about the OEM qualification process a little bit more? I think you had mentioned several of the steps in terms of this one-year process and so forth. Is it simply an

exchange of technical drawings and inspection of your plant by the OEM producer to sort of qualify processes and recordkeeping?

MR. MILLER: Yes, typically it would start out with the print that the part has to be designed to. And then within that you have operations parameters, the number of reseals that the valve can make, the leak grate that it can make, any oxidation, salt spray leakage issues, high/low testing as far as will it hold pressure under high pressure, not leak to the atmosphere under high pressure or low pressure. Every OEM has a battery of tests that they require. And some may differ and temperatures and pressures may differ.

And then they will also do, some of the OEMs will do an operational test as well where they put it in an environmental chamber and test it over the -- and try to simulate the life of the valve.

MR. YOST: Okay. And at the end of this process you come to some agreement or you hope to come to some agreement with the customer in terms of quantity and pricing and so forth and so on I imagine. What's the process of negotiating a price? I guess that question would be directed to you, Mr. Nelson.

MR. NELSON: Yeah, typically on the pricing

negotiations we try to, one it's a derivative of the volume that's expected, there is consideration for how deliveries would be handled, expectations in the market as to where the price levels have historically been. And working from those points we will work out the volumes, the delivery requirements, the terms and we will present a price based upon those conditions of the terms of sale.

MR. YOST: And then the customer comes back or rather the OEM comes back to you and says, Look, that price is unacceptable, and presents you with a price presumably from your Chinese competitors. Would you consider yourself to be a price taker?

MR. NELSON: Typically the prices we've seen we could not survive with those levels. But we typically try to work with the customers on some give and take with regards to what we can do with regards to inventory or stocking conditions or stuff like that that may help us with regards to costing or forecasting out a volume and production. That would have an impact on cost.

MR. YOST: Okay. That does it for my questions. Thank you very much.

MR. CARPENTER: Mr. Mata?

MR. MATA: Yes. My name is Ruben Mata from

the Office of Industry. I have basically two questions: one for Mr. Nelson.

Did you say earlier, Mr. Nelson, that do all U.S. residential air conditioning units make use of frontseating valves?

MR. NELSON: All seven of the OEM manufacturers use frontseating service valves as the majority of the service valves on their units. There are a couple that do have, as Pat has mentioned, there's one company that does use a backseating valve on their high end premium models, which is a small percentage of what they make. There are a couple OEM manufacturers that use a ball valve on the suction side of their lines on their high end altered deluxe models, which is a small percentage as well.

MR. MATA: Just for clarification now, these frontseating valves are used in split air conditioning systems only and not in heat pumps that you will find in restaurants?

MR. NELSON: They will be used in residential heat pump systems. As far as the system in a restaurant which would be more of a commercial type system, they would not typically be used in that.

MR. MATA: Okay.

MR. MILLER: I could maybe help a little

here. There is a term called a package unit in the industry that has everything that is located outdoor of the house, the heating and so forth. And they at that point it would be a box that blows air into the house so there would not be a line set or a service valve needed in a package unit. But that's a very small percentage of production in North America.

MR. MATA: Looking back to these high end premium ball valves that are used in high end air conditioning systems is there a correlation between the SEER level and how do you define premium valves? Is it based on tonnage?

MR. NELSON: It would have to do with the possibility it could affect SEER level. But there are other ways you could affect SEER level by going to a larger condensing coil. It can affect the noise that the unit puts off because you are not running your flow through a V-flow valve, you're going through a straight flow path which is a quieter operation. So those are some of the features that they sell it on.

Also with regards to a ball valve when compared to a frontseating valve, the service technicians typically like those because now they're not starting out a valve that has to be threaded out 15 times to get service to the unit, they have a valve

they can put a wrench on and turn it a quarter turn and they've got the same shutoff functionality.

MR. MATA: I guess what I was driving at was at what point do you stop using front service valves, and if you could correlate it to a SEER level, say a 15, 17 SEER level?

MR. NELSON: It's not really the SEER level number that would cause that change.

MR. MATA: Okay.

MR. MILLER: Again maybe I can help clarify. Each manufacturer can get into the SEER levels using different types of components, higher efficiency compressors, variable speed blowers and fans. They can get there with adding coil on the outdoor unit, make it taller and gain more efficiency that way.

One way to be able to reduce those costs is to be able to do a ball valve which may gain them half to one SEER point by just using a ball valve. And that in conjunction with others can get them from a 13 SEER up to 15, 18, 20 SEER type unit as you combine all these different features.

Does that help answer it?

MR. MATA: Yes, it does. Thank you very much, Mr. Miller. That concludes my questions.

MR. CARPENTER: Mr. Deyman?

MR. DEYMAN: I'm George Deyman, Office of Investigations.

Some of the questions I may ask are questions to which we already know the answers or at least we believe we know the answers but I have to ask them for discussion purposes and also to get the answers on the record.

Have you been the only U.S. producer of FSVs since January of 2005, the beginning of the period of investigation?

MR. NELSON: We believe that Chatleff may have been producing valves during this time period but we're unaware how long they produced them into '05.

MR. DEYMAN: How do you spell the name of that company?

MR. NELSON: C-H-A-T-L-E-F-F. They've recently become owned by Danfoss.

MR. DEYMAN: If you know why they stopped production, if there is a press release or something along those lines could you indicate now or provide it in your postconference brief if they gave a specific reason for stopping production?

MR. NELSON: We're not aware of one, why they stopped, other than that they lost their last customer.

MR. DEYMAN: Do you know what happened to their --

MR. MAGRATH: Excuse me, Mr. Deyman. We are not aware but, you know, the circumstantial evidence points one way because they were -- if they were for that one OEM customer producing in the period of investigation that customer is now served by Sanhua. So I would suspect that's the reason but maybe that's just because of what I do for a living.

MR. DEYMAN: Do you have any idea what happened to Chatleff's production equipment?

MR. MILLER: No, we don't know.

MR. DEYMAN: And other than Chatleff, to your knowledge has there been any U.S. production of FSVs in recent years by integrated U.S. producers of air conditioning systems?

MR. MILLER: Not to our knowledge.

MR. DEYMAN: When did you first notice the imports from China and when in your opinion did the imports begin to have a noticeable effect on your operations?

MR. MILLER: I guess we'll have to -- I'm not exactly clear of the date. We started seeing it probably in '02, '03 probably. Well, started seeing valves showing up at customers, sitting on people's

desks and those type things. As far as when it started impacting our business it would have been during this period of investigation significant.

MR. DEYMAN: All right. You indicate in chart three that you distributed earlier and in your petition that the average unit values of your FSVs increased during 2005 to 7, although not by as much as the average cost of goods sold. Were these increases in average unit values actual price increases or are they simply an increase because of the product mix? Or both?

MR. NELSON: Really it was a method of we did have some agreements in place to recover some of our material cost increases that we were able to work with our customers on to have the material increases only covered on a cost by cost basis, and that's why you did see the value of that go up slightly.

MR. DEYMAN: So you were able to increase prices despite the fact that the imports from China were priced significantly lower?

MR. NELSON: We were not raising prices, we were just we had a surcharge program in place that if the material costs went down they would get a debit, if the price of the raw materials went up they would get a credit. And that was basically we have the

weights of all of our products calculated out, that's a program that we run based on what their base prices were set at and what the movement of brass and copper was that dictates whether that's a surcharge or a debit based upon the exact movement of the material costs only. So it's just a recovery program of capturing just the differences in the material costs only.

MR. DEYMAN: We've asked several questions about demand, consumption and the fact that it may have decreased in recent years. But it's not clear to me exactly why demand for this product may have decreased other than perhaps the housing market. Are there any other reasons which would have caused the decrease in demand?

MR. MILLER: Part of the impact would be depending on how much inventory the OEMs carry year after year throughout the season. So if they were carrying excess in 2005 coming into 2006 they would not have to produce that and ship, sell out inventory. So you can get variation year to year based on inventory levels.

MR. DEYMAN: Suppose that someone argued that the market has shifted towards higher end air conditioners and therefore the types of air

conditioners that the FSVs are used in are not in demand as much; is there anything to that argument?

MR. NELSON: I would say no in that just looking at the overall shipments of frontseating service valves combined between North America and China you can see that the average of those usages has remained fairly constant.j

MR. DEYMAN: Okay. I just have a couple of other questions. In his opening statement Mr. Craven said that we need to consider alternate products which are a price limiter on FSVs. I suppose he was talking about the backseating and the ball valves. I don't know, are there any other alternate products that he might have been speaking about?

MR. NELSON: Not that are currently used today on these types of systems.

MR. MAGRATH: Mr. Deyman, I would submit of course that these other products that we've been talking about a lot here are a very small part of the market, whereas the real limiter on U.S. FSV prices we would consider to be the huge increase in Chinese imports and import market share over the period.

MR. DEYMAN: Understood.

And finally, Mr. Craven also alluded to something which he I think felt may have been business

proprietary so he didn't want to be too specific, but something about your company's year, the way it markets the product or sold the product or priced the product or the capacity, or something along those lines which one might infer may drew the imports in. Is there anything you want to say, not knowing exactly what he was talking about, but is there anything you want to say about your company's operations before the Chinese came into the market and the way you marketed your product?

MR. NELSON: No, we're not aware. I mean we were supplying these products for a long time to the market at very fair rates, very good customer service, very good delivery, very good quality. And there was nothing that we would have done to really drive our customers away from this product. And we were just maintaining healthy markets at that time and just providing a service.

MR. DEYMAN: Very well. Thank you, appreciate very much.

MR. DINAN: Mr. Deyman, if I just may add one item to that. Before the Chinese import penetration all of these OEMs are in competition with each other and, therefore, if there was any price limitation factor that's driven by the OEMs'

considerations, not Parker. Because they are the ones that know that Carrier is not going to get a worse price than Crane.

MR. DEYMAN: Thank you very much. I have no further questions.

MR. CARPENTER: I just have one follow-up question, something that I'm somewhat curious about. Currently you are the only U.S. producer. And I guess early in the period or just prior to the period of investigation there was one other small producer. Can you give me some sense as to why there are so few companies, U.S. companies -- forget about imports for the moment -- but as to why there are so few U.S. companies involved in this business? Did it have something to do with the customization of a product or do you have any theories on this?

MR. MILLER: Really I can only guess more than anything. It is very capital intensive. If you are not already building, you know, a lot of brass machining and copper type capability and you are able to respond to these high volumes in the seasonality it's a very tough business. There are a lot of barriers to entry.

MR. CARPENTER: That's a good answer. Thank you.

Are there any other questions from staff?

MS. LOFGREN: Yes.

MR. CARPENTER: Dana?

MS. LOFGREN: Again I'm Dana Lofgren from the Office of Investigations. I have one question to follow up to something Mr. Magrath said and that was that there are barriers to entry to the U.S. market. For other imports I was wondering if you could elaborate on that as to why we would not expect to see imports from other countries?

MR. MAGRATH: I can't really improve on the answer that Mr. Miller just gave. Other countries would have to submit to this qualification process. It's a capital-intensive business that it takes a lot of money to get in it and stay in it. And technically, you know, it's a technological difficult product to make. And, Ms. Lofgren, the current market brass and copper are very dear in terms of price and even availability. And I've got to think that people in India, for example, have much better uses for this very pricey, scarce material than to try to fight the two huge Chinese companies or Parker in the U.S. market. They've got better uses for their material.

Oh yes, and Mr. Hudgens, why don't you add your point.

MR. HUDGENS: The North American market they don't already produce this for their own home market for other export sales. It has to be directed specifically for U.S. customers.

MS. LOFGREN: I have one last question about why your customers might want an alternative source of supply. Were you ever not able to fulfill orders or did you ever place customers on allocation or were you never able to provide something like a just-in-time shipment that they might want or was this strictly on the basis of price?

MR. MILLER: This was strictly on the basis of price.

MS. LOFGREN: Thank you.

MR. CARPENTER: Thank you very much, gentlemen, for your testimony and for your responses to our questions. We very much appreciate that.

At this point we will take a short break of about 10 minutes and then we will resume the conference with the respondents' testimony.

(Whereupon, a short recess was taken.)

MR. CARPENTER: Let's resume the conference now. Please proceed whenever you are ready.

MR. CRAVEN: It's still good morning. Good morning, I am David Craven. I am with Riggle and

Craven. And as I said, I am appearing today on behalf of Zhejiang Sanhua.

As you have properly identified, it is difficult to talk about a lot of the specific issues due to the limited number of members of both the domestic and the importers community. But we are here because we are eager to address any concerns that the Commission may have. We think there are a number of areas that need to be examined by the Commissioner in the context of the factors that would be reviewed. And we will review those in our posthearing brief. However, there are a couple of things we think we can talk about today.

The first of these is the history of Parker Hannifin, the petitioner, and their historic conduct which I alluded to in my opening remarks. The second of these is the product under investigation, the substitutes for the product in the marketplace. And the third of these are the demands of the marketplace, including the need for a quality product and a reliable alternate source of supply.

First I would like to briefly discuss Parker Hannifin. Parker Hannifin is a strong, powerful U.S. manufacturer with a wide range of products. Parker Hannifin has historically not remained static in this

market. In the case of service valves Parker Hannifin has been active in a number of areas. Initially beginning in 1995 Parker Hannifin embarked on a course of consolidation of the service valve industry. And Parker Hannifin has now completed this consolidation. As they themselves have acknowledged, they are now the sole U.S. producer of frontseating service valves. Nature abhors a vacuum.

Parker Hannifin's elimination of its domestic competitors created a vacuum into which the Chinese were naturally drawn. As Mr. Miller himself noted this morning, there are significant barriers to market entry for a producer. Parker Hannifin realized this and purchased its domestic competitor, realizing that no new domestic competitor could arise because of the very market barriers that Parker Hannifin has identified.

Absent the participation of the Chinese producers, Parker Hannifin would have had and did have a monopoly on the market with monopoly prices and monopoly profiting. Parker Hannifin has not limited this competition to the acquisition of the other U.S. producers. Parker Hannifin, and I will discuss this further when I talk about the nature of the product, has developed and patented a number of alternative

products to frontseating service valves, and they are actively marketing those products.

I think a key question also is Parker Hannifin's production capacity and whether they would have the capacity to produce all of the valves needed by the U.S. end users at the time the end users need those valves. Based on the public chart they provided today I think you can see that at least in 2005 they would not have been able to meet the periods of peak demand. The Commission needs to examine this more closely.

I would now like to briefly turn to the product under investigation. Sanhua is not suggesting at this time that the like product should be changed. Rather, we are simply suggesting the Commission must consider the existence of these alternate products and how these more advanced alternate products have a potential impact on the pricing of FSVs. Chief among these products, in fact these other products are ball valves and backseating valves which were discussed this morning. And a ball valve or backseating valve can be used at the design phase as a substitute for an FSV. In fact, as the domestic industry stated this morning, they are superior in many ways to a traditional FSV. While ball valves, for example, are

traditionally more expensive than frontseating valves they are also superior to frontseating valves. As noted this morning, a design implementing, simply implementing the use of a ball valve could increase your SEER rating by half a point. That is not an insignificant change.

And, of course, Parker Hannifin is not the only producer -- I'm sorry, as Parker Hannifin is the only U.S. producer of FSVs they want to protect that, but they also are the only holder of a patent on a particular ball valve which is a substitute for an FSV, so they also have control of that market. We think the Commission must examine that.

Finally, we think the Commission should recognize that FSVs are a very small part of the total value of a far more expensive and complex system. I am confident that when the Commission collects data from the end users they will fully confirm that the end users of these products place a premium on an alternate source of supply. To quote Ben Franklin, "for want of a nail the shoe was lost, and for want of a shoe the horse was lost." Well, Parker Hannifin is the sole U.S. supplier of FSVs from a single facility. Mr. Miller of Parker Hannifin acknowledged that this morning in his testimony. If this plant were to have

a problem, a fire, an earthquake, a tornado, labor issues, some other act of God, the U.S. end users would have, with one week's lead time which they say they have, one week to discover they do not have the valves that they need for production, a low value product compared to the value of the total air conditioning system that is critical, a component that must be available for the U.S. end users to produce their product. For the want of a valve the air conditioning production would be lost.

When Parker Hannifin acquired all of the other producers and eliminated all of the domestic alternate sources of supply it compelled the participation of the established Chinese producers in the U.S. market. In sum, the Commission has a number of areas in which inquiries should be made to ascertain the true nature of competition in the U.S. And if the Commission should find there is injury it should consider whether imports were in fact the cause of this injury or rather if the injury was a natural consequence of Parker Hannifin's own competitive decision making in the marketplace.

This ends my direct presentation. We would be happy to answer any further questions the staff may have. Thank you.

MR. PARETZKY: Thank you. I am Raymond Paretzky of McDermott, Will and Emery here in Washington representing Goodman Global Inc., one of the OEM manufacturers and industrial user of the subject merchandise. With me is Michael J. Knights, the Vice President for Procurement of Goodman Global Inc. And without further ado I will turn it over to him.

MR. KNIGHTS: Good morning to you all. Just very briefly, my name is Mike Knights. I am the Vice President of Procurement for Goodman Global Inc. who is now the number two producer of residential HVAC equipment in the U.S. By brand it's actually the number one producer with the Goodman brand, but by total brands it's the number two producer in market share.

I have been with the company now for four years. I transferred out of the automotive industry in Detroit after 20 years in that industry. As a customer of the HVAC industry and a consumer of the product that I produce in our own plant it is a very difficult position for me today. I still maintain Parker Refrigeration as a supplier in my panel because of a design-related component they also produce and are probably the only producer of that product also in

the U.S. today. So that is a problem for me. It is a problem for me to be here. But what I am here for is to stand up for what I think is right and just and the decision that we took as a company, as an organization to make sure we protected the future of our business also.

We operate from five facilities in the U.S. with in excess of 5,000 employees. We operate in the state of Texas, the state of Tennessee, the state of Florida and Arizona. We operate through around 150 company-owned stores plus six hundred and fiftyish independent distributors. There isn't a state that we don't represent. There isn't a state that we don't sell to. We produce, in the words of our founder, cheap cold air. That's what we do and that's how we do it.

We're known in the industry as the low cost value producer and we do not accept that our inability to compete with the Chinese. It's as simple as that. We're the only manufacturer of certain HVAC products today in the U.S. that we now compete head-on with the Chinese. A simple example would be a hotel room, what we call a PTAC unit, which is the Marriott style hotel plug-in wall system. We own 58 percent market share in that product range today. And we compete head-on

with the Chinese for that. So it is possible to be a U.S. producer and compete with the Chinese.

That being said, when I look at the case itself of Parker and their supply to Goodman we submitted the questionnaire as requested. Some of the information in there is proprietary and needs to be, if you want to discuss it behind closed doors, but some of the other information is very, very important to understand. As a major producer of HVAC products when you make a sourcing decision to move business from one source and place it to another it seems that you really need to consider are those three deliverables to any customer in any industry for any product based around quality, total cost and delivery. When you look at those three elements alone, you look at the performance of Parker when you occupy a "monopolistic" 90 percent market share position in a market it's not healthy competition. It's not healthy for the end user of a product or the consumer of a product.

The performance of Parker in 2005 and 2006 was in my eyes completely unacceptable as a business first. The business of Goodman underwent a major transition from a family business to an acquisition by Apollo Management, from that to a publicly traded

company on the New York Stock Exchange in 2006, and subsequently to a second acquisition three weeks ago by a company called Helman and Friedman and now back to a private company. In that period of time we saw sales grow from a billion dollars to just in excess of $2 billion by the end of 2007. When you look at that kind of growth and change it is not possible to do that with a supply base that can't support that kind of change, growth, whether it be incremental business to them or substitutional business to them.

Unfortunately for Parker, their level of performance they failed in all aspects of that key deliverable to me, the customer, in terms of quality, what we would call a standard industry definition of quality performance as a measurement of PPM or parts per million in terms of defect. There is a simple logarithmic calculation rate that shows them dealing with 690 PPM versus a target of zero. The industry standard or average is around 200 PPM. So you can see they are far in excess of what you would classify as a good quality support in terms of supplier.

In fact, they only achieved that performance target four times in the 12 months of supply for that period. That's on the basis of industry standard.

In terms of cost there are many, many

different elements to the cost of a product. There is different ways of looking at that element of cost. There is a volume should cost model, there is a should cost/must cost model. There are various different options of how to determine the cost of a product. It's not purely about the price of a product, there's cost of quality, there's cost of warranty, there's cost of late delivery, premium freight. Not once did they meet the total cost targets of their customer Goodman in the 12-month period. Not once.

Then to talk about delivery, contrary to the statements made earlier they failed to meet the delivery target measures of delivery on time and days of supply inventory levels every single month in 2006: a 100 percent failure rate. As a customer you can't build a business going from a billion dollars to $2 billion with a source with that level of capability.

Price is a small element of the decision we take when sourcing components. A simple example would be even if the price is low, if there is poor quality and late or missed deliveries the price is not longer a value proposition and it is totally irrelevant. With no parts to build there is no supply, there is no sale, there is no turnover. It's as simple as that.

You have all the backup documentation for

that. Like I say, my testimony today is really very simple, very straightforward. I would be willing to answer any questions that you may have to ask. I give you the customer's viewpoint which is really quite straightforward. If you can't perform in terms of quality, if you do not offer a competitive price and you do not deliver on time the likelihood is you will get the result that you have seen today. If you have 90 percent market share and seven customers and now you have no customers there is a reason for that. It's because the customer isn't happy with the service you've provided in those three elements, not just the price, nothing to do with the price.

MR. PARETZKY: Just to clarify for the staff, the questionnaire response that Mike was referring to is the lost sales questionnaire response which I'm not sure if that's actually been submitted yet but if not, it will be in the next day or two. He's been on the road. Thank you.

MR. PARDO: Thank you and good morning. My name is Mike Pardo. I am with Grunfeld Desiderio. I am here today on behalf of DunAn Precision and DunAn USA. I will share some of the comments that have been made by my colleagues earlier today which is primarily that many of the arguments that we are anxious to

share with the Commission will fall by necessity under the APO so therefore we really have a limited ability to discuss the issues right now.

At the moment I really wanted to simply reiterate two points that have been touched upon earlier today, the first being that in the first presentation, the first panel this morning from the domestic industry one of the phrases that we heard on several occasions was that what we're faced here with is a situation where we have a complex product but a very simple injury analysis. I would urge the Commission and the staff itself to consider that phrase and its implications very carefully. I think that common sense will often tell us that when a product is complex then by necessity the decisions that go into the purchasing and sourcing of that product are also by necessity complex.

So perhaps the way that that phrase might be better modified is complex product, complex purchasing decisions. And I believe Mr. Knights has done a fine job in at least touching upon some of the reasons beyond simply pricing analysis that would come into play on these decisions.

The second point that I would again briefly urge the Commission and the staff to consider is that

there appears to be on its face at this preliminary stage two additional elements to this case that one may not find ordinarily in a standard injury case, one being the general trends within this specific industry which I think even with what we've heard today I think people should understand and appreciate is somewhat unique, that there has been a considerable amount of consolidation recently in the domestic industry. We're faced with a situation that even the respondents acknowledge is somewhat unique in the sense that what we have is one company that is representing by its own admission 100 percent of the U.S. industry.

So to the extent that it is possible at the preliminary stage I would urge the Commission to consider what the ramifications of this consolidation were in the years immediately preceding the period of investigation itself and what impact that may have had to pricing in the industry situation leading up to the Parker Hannifin.

In the same light as was touched upon by many of the questions from the staff to the domestic panel, I would also urge the Commission to consider fully the impact of the housing market and its necessary interaction with this product. And again, this is I believe a factor that may precede the actual

period of investigation. However, in this particular case I think based on the unique circumstances that we are all very well aware of now with respect to the housing market's rapid rise and decline over the last ten years, I believe it is something that merits full consideration.

Thank you for your time. And we look forward to presenting our arguments in further substance in our postconference brief. And we certainly are happy to answer whatever questions we may.

MR. CARPENTER: Thank you very much for your presentation. Let me begin just with a couple questions.

First of all for Mr. Pardo and Mr. Craven with respect to the two companies that you're representing can you tell me how many OEMs you currently sell to, if you are aware of that information at the time?

MR. MARSHALL: We'd like to address that in the postconference brief as it's probably subject to the APO.

MR. CARPENTER: That would be fine.

MR. MARSHALL: Yes, sir.

MR. CRAVEN: I am aware of how many

companies my -- OEMs my client sells to. We would also like to address that in a postconference brief.

MR. CARPENTER: Okay, fine. Just a couple of follow-ups to that. Could you indicate whether any of the customers that you sell to, the OEMs, whether any of them single source from you? And also could you provide, if you haven't already, the dollar value of your sales to each of these OEMs during each year from 2005 to 2007?

MR. MARSHALL: We'll certainly address those on postconference brief as well.

MR. CRAVEN: Would you also like our defect rate

MR. CARPENTER: Sure, if you're willing to provide those.

MR. CRAVEN: Thank you.

MR. CARPENTER: And just one other quick question. Is anyone on the panel here aware of any imports of this product from any countries other than China?

MR. PARDO: Not at the moment, no.

MR. CRAVEN: Not yet.

MR. CARPENTER: Thank you very much. That's all the questions I had. I will turn now to Ms. Lofgren.

MS. LOFGREN: Good afternoon. And I would like to thank you also for being here and traveling and coming and talking to us about the industry because it is very helpful to have both sides represented. I think most of my questions really were probably directed toward Mr. Knights.

The first is whether -- now, first just to clarify, does Goodman also fall under the Amana brand? Is that one of your brands?

MR. KNIGHTS: That's correct.

MS. LOFGREN: Okay. And I read that that's a higher end or it's marketed, it's on the higher end, isn't it?

MR. KNIGHTS: It's a premium brand.

MS. LOFGREN: Does that use frontseating, do you use frontseating service valves in Amana systems?

MR. KNIGHTS: Correct.

MS. LOFGREN: You do.

MR. KNIGHTS: Yes.

MS. LOFGREN: Okay. And how does the HVAC manufacturer differentiate their product from their competitors? Does it have anything to do with the valves used?

MR. KNIGHTS: No. The valve really is of no consequence. Some of it's mainly a brand image more

than anything. Some of it is feature set but it depends on the product, depends on the product line, depends on the kind of customer you're trying to attract. It's really about the brand image.

MS. LOFGREN: And are your customers the distributors or do you consider your customers actual homeowners?

MR. KNIGHTS: We have a distribution model where you'd go to a distributor, a distributor would sell it, or a dealer, a dealer would sell to a distributor, the distributor to the end user, the customer, the homeowner.

MS. LOFGREN: Okay. And can you say, or maybe in the postconference brief if you submit one, what percentage of the total cost of the typical unit would be accounted for by a frontseating service valve? You mentioned that it's relatively small.

MR. KNIGHTS: I can't say. But it is very, very small.

MS. LOFGREN: Very small.

MR. KNIGHTS: Yes, very small. It's less than a percentage point.

MS. LOFGREN: Okay. And you mentioned defects in the parts that you had been supplied by Parker. I'm sure that can happen for any supplier.

But for the defects that you encountered you said specifically in 2005 do you notice a defect after the valve has been installed or is it something that -- I know they test at their factor, do you test all the valves that you purchase?

MR. KNIGHTS: They can be both, after installation or it can be prior to installation. Even with 100 percent inspector at the supplier's facility they still shipped poor quality product.

MS. LOFGREN: Do you have documentation of that that you could submit --

MR. KNIGHTS: Sure.

MS. LOFGREN: -- in the postconference brief?

MR. KNIGHTS: It's all in the questionnaire too.

MS. LOFGREN: Okay. I haven't seen that yet.

My other question --

MR. KNIGHTS: Probably informed also throughout the even following this period the resource way with the service valve the maintenance of the business level with Parker on designing critical parts for us also show their performance continuing to decline in all three elements. So now they're scoring

for 2007 their performance score on a five index score basically amounted to 53 versus a target of 85.

MS. LOFGREN: And that was in 2007?

MR. KNIGHTS: In 2007.

MS. LOFGREN: Okay. And do you rate your suppliers from China on the same basis?

MR. KNIGHTS: Correct.

MS. LOFGREN: And their numbers have been higher than Parker's probably?

MR. KNIGHTS: Sanhua, probably not for discussion, but Sanhua is the number one supplier now to Goodman.

MS. LOFGREN: Okay.

MR. KNIGHTS: Ranked as number one based on a five-element matrix of product quality, the relationship, integrity, delivery and economics. The statement is PRIDE, it's pride in everything we do for us. The P is an element of PPM with pure quality measurements. The R is a relationship measurement and that measures the performance of the relationship between the two companies based on our own accounts payable, accounts receivable, design, collaboration, this kind of thing. The integrity part would be whether their registration, excuse me, whether their quality registration to an item, a specific standard

or a TA standard or a 14001 environmental standard. Their delivery performance is a matter of days of supply on hand at the plant plus delivery on time, a calculation of the two. And the E is pure economics.

And this is where it becomes really interesting because when you measure a supplier's performance based upon that five panel category it then becomes clear to people placing these kind of decisions that the economics performance in that index is only 25 percent of the total supplier score. So inside of that economics price is only 15 out of the 25 of that. So when it comes down to price basically you're looking at it being 15 percent of the driver for a decision.

MS. LOFGREN: Okay, I appreciate that. That's helpful.

MR. KNIGHTS: If you want the breakdown of that kind of process we can provide that.

MS. LOFGREN: Thanks. That would probably be helpful to the economists and for all of us.

MR. KNIGHTS: Sure.

MS. LOFGREN: I'm wondering, there's been a lot of emphasis on the importance of having an alternative source of supply instead of having one domestic supplier.

MR. KNIGHTS: Correct.

MS. LOFGREN: Is there any concern, I know you can only speak for Goodman, but is there any concern on the part of OEMs that if they shift all of their procurement to sources from China there will be no domestic source of supply and they will effectively only have a single source of supply?

MR. KNIGHTS: Well, I mean again don't misunderstand, there is also more than the two manufacturers that you have heard about today. There are different people with different technologies out there today that you can design into a product range given the time. Contrary to the statements made earlier, it doesn't take a year to approve an alternative. It took us 12 to 14 weeks. It can take you a year if you want it to take you a year, no question. If you have the drive to make the right decision for your business, this kind of approach is a 12- to 14-week cycle.

MR. PARETZKY: This is Raymond Paretzky. I would like to add to that that, you know, one factor to keep in mind when you were talking to the petitioner group about interchangeability and whether you could substitute a ball valve or a backseating valve for a frontseating valve, and they answered no,

no, you can't substitute them. You know, I think that answer really obfuscates the truth. You couldn't substitute another frontseating valve either unless you changed the design.

But if you changed the design, which you could relatively easily do and would do if you had the incentive to do that, you could substitute not only another frontseating valve but you could also substitute a backseating valve or a ball valve. If the price of frontseating valves is so outrageous, for instance, if there was only one monopoly supplier in the world, then you could design your unit to use a backseating valve which, as you've heard, is the superior, or a ball valve which improves your SEER rating, and then you wouldn't be at the mercy of the frontseating valve producer anymore, and it's all a matter of where the prices cross.

MS. LOFGREN: Thank you. My other questions really have to do with production in China, and to the extent that the counsel for the Chinese producers can answer these now or in postconference brief, that would be very helpful. Just to clarify, do you know of any other producers of frontseating service valves in China, or secondarily of valves, of a sort of substitute valve in China?

MR. PARDO: Currently I'm not aware of any additional manufacturers of frontseating service valves. With respect to what might be a suitable alternative, again, I share Mr. Paretzky's view that the alternative itself is to some degree dictated by the necessity in the market and the demand so that if the design could be changed then that could become a pretty open-ended question.

To the extent we can address that in our postconference brief, we will.

MS. LOFGREN: Okay.

MR. CRAVEN: I'm not directly aware of any, but we certainly will investigate and respond in our postconference brief.

MS. LOFGREN: Okay, thank you. My other question has to do with something that was submitted with the questionnaires. They used a term I hadn't encountered before regarding forged body valves versus barstock valves? These are terms that we haven't ourselves used yet today.

I was hoping someone could explain to me what the difference between a forged service valve is and a barstock service valve?

MR. CRAVEN: I believe that would be us that submitted that information. I think we would like to

address that in the postconference brief, but suffice it to say we are not completely convinced that FSVs can only be made from barstock.

MS. LOFGREN: Okay. I'll look forward to reviewing that explanation because I'm confused. I did read in a public source that was analyzed in HVAC market and Goodman and Parker, and this corroborated what Chris Nelson testified to this morning, that about 70 percent of the market is actually replacement and not new homes.

The analysis I read of Goodman said that Goodman is largely insulated from a downturn in the housing market because you have such a strong segment outside of new starts. Is that your experience, Mr. Knights?

MR. KNIGHTS: Yes. The standard industry data would probably lead you towards believing that the addled replacement market would be around 70 percent of the total market. The balance will be in new home construction. Then, as an OEM it really does depend on whether your business is weighted more to the add on replacement side or the new construction side.

So if you happen to be 80 percent new construction and the downturn is 25 percent, obviously

you're in a worse position than being somebody who is 80 percent add on replacement.

MS. LOFGREN: Okay. Have you had any feedback from your distributors or your service people regarding a preference, or quality issues, or complaints about a Chinese valve versus the U.S. valve? Does anyone notice what kind of valves they're using or the origin of the valves they're using?

MR. KNIGHTS: No.

MS. LOFGREN: Okay. Good. Those are all my questions for now. Thank you.

MR. CARPENTER: Ms. Hughes?

MS. HUGHES: Okay. Back to the like product. First of all, I heard clearly Mr. Craven say, I think -- please forgive me. I've got some sinus infection or something which sometimes clouds my thinking, but I think you said that you're okay with the one like product proposed definition that the Petitioners are proposing. Is that not correct, Mr. Craven?

MR. CRAVEN: I also have problems with the Cherry Blossom pollen by the way.

MS. HUGHES: Okay.

MR. CRAVEN: I think we don't have any problem with the like product definition.

MS. HUGHES: Okay. Mr. Pardo, I don't recall hearing your opinion or statement on that. Are you okay with that, or is that something you want to think about further and tell us in a postconference brief?

MR. PARDO: Thank you. It's certainly an issue we will address in greater detail in the postconference brief, so at the moment I wouldn't feel comfortable giving you an absolute answer.

MS. HUGHES: Okay. That's fine.

MR. PARDO: I think there's definitely been some discussion with respect to the potential for replacement here today that I think merits further consideration, so I'll have to review that further. Thank you.

MS. HUGHES: Right. Certainly I would ask, I don't know if you're doing a joint brief, separate briefs or whatever, but so long as the issue is covered and I have both of the Chinese producers' outlook on this to address the factors that the Commission typically considers for the like product, and, again, not just for the backseating, frontseating and bar valves, but also for the large and small diameter valves.

I take it because I don't see any sitting in

front of you you didn't happen to bring any samples of the Chinese valves with you, right?

MR. PARDO: No, ma'am, not for today's presentation.

MS. HUGHES: Okay. If I saw them would I know any difference? Would I see any difference, assuming I examined them closely from Parker's valves? Do they look the same?

MR. PARDO: My understanding, again, is that the valves are very often built to spec. Now, I'm certainly not very familiar with Parker's entire range of product, but I think perhaps Mr. Knights might be better suited to answer that.

MS. HUGHES: Well, given that Parker had said that its lost business to Chinese producers, apparently they would be having to make the same valve or a similar valve to the same specification, I guess we'd say, so if I were to hold up the valve that Parker has sold to this client, I have no idea whether Goodman would be that client, but versus the valve that, you know, the Chinese producer had sold, examining closely, would I be able to tell a difference?

MR. KNIGHTS: Sure.

MS. HUGHES: Yes? In terms of how? Are the

materials different?

MR. KNIGHTS: I think the gentleman over there will describe that postconference, but there's a visible difference.

MS. HUGHES: Okay.

MR. KNIGHTS: It's not just a visible difference. To Charles, his point earlier, it's also about how the valve is constructed, its performance, design for manufacturer design, design for supply, design for collaboration, all those things are done differently when you have an active pursuer of the business versus the entire mentality of a 20 year vet in the business.

MS. HUGHES: It can't be designed so differently, could it, because then it wouldn't be cost effective for the OEM to just switch from one supplier to another, it would have to redo the design. Wouldn't that be a costly and time-consuming process?

MR. KNIGHTS: A 12 week process.

MS. HUGHES: No. How long would it take to redo a design? That is another -- we may as well segue there.

MR. KNIGHTS: That would be, again, a 10 to 12 week process.

MS. HUGHES: Really?

MR. KNIGHTS: Yes.

MS. HUGHES: Whether you're doing it for a frontseating valve because, how did one of you put it, there might be some incentives to change the design to use a different frontseating valve?

MR. KNIGHTS: Sure.

MS. HUGHES: It would take 12 to 14 weeks for that as opposed to doing a backseating valve or a bar valve --

MR. KNIGHTS: Well, again, when you get to that point, Raymond's point, it's where the cost crosses over in terms of the applied cost design. You would always take, if you're a low cost value producer, the cheapest or the more cost-effective design for your product, if that means instead of having a brass cap on top you'd have a plastic cap, whether that means you reduce the wall thickness of the tube or the weight of the brass body, as long as it performs, meets the performance criteria of the OEM.

MS. HUGHES: All right. So what would be the incentive to change the design in the first place?

MR. KNIGHTS: You have two different incentives. One, you have a supplier that doesn't perform in all elements of quality, cost and delivery.

When you're growing as a business to maintain your growth rate you need to make sure that you have the right quality product at the right total cost and you have it available to produce.

MS. HUGHES: So you can't take the one design you had with the unsatisfactory producer to the other producer and say here are the specs, this is what I want, I want the same valve, but I want you guys to make it?

MR. KNIGHTS: You could do that, but there would be no point because the cost out would be very different.

MS. HUGHES: And why would that be?

MR. KNIGHTS: The change in design, the change in approach, the mentality of the supplier, the design for engineering, the design for --

MS. HUGHES: You can't take the same design.

MR. KNIGHTS: You can take the same design, absolutely.

MS. HUGHES: Wouldn't you want to do that to keep the costs down?

MR. KNIGHTS: You first approach, and, again, from Mr. Yost's point, in terms of your quotation process it would be like design for like design. "Comparing the apples with apples." Now,

tell me what you would do differently in the design of that product to meet my performance criteria. Then you have a different design, a different approach, a different cost base.

MS. HUGHES: Maybe you can say this now, maybe you'd have to explain in your postconference brief, but can you tell us how often you switch suppliers say in like the last five years?

MR. KNIGHTS: Of this product?

MS. HUGHES: Yes.

MR. KNIGHTS: Once.

MS. HUGHES: Okay. All right. I had asked the Petitioners if they maintain inventories. Do the Chinese producers maintain inventories or do they make the --

MR. KNIGHTS: This is also a very, very good question at the end of the day. If you from a U.S. domestic source take seven to 10 days to receive a valve into a plant, and your lead time to a customer is 24 hours, this creates a problem. The way in which the agreements have been made with alternative suppliers now would put consigned inventory in your plant that you could draw on within seconds, not days, at no cost to you.

MS. HUGHES: So there are inventories

maintained is what you're saying?

MR. KNIGHTS: Absolutely.

MS. HUGHES: Okay. So I assume that you were a Parker customer for some period of time.

MR. KNIGHTS: Correct.

MS. HUGHES: Okay. Perhaps this is already something you provided in the questionnaire response I've not seen, but if not, could you explain exactly in detail what went wrong, and how long you were a customer, that sort of thing, give us as much detail, if you have --

MR. KNIGHTS: It is in the questionnaire.

MS. HUGHES: Okay. Thank you. So you had mentioned, Mr. Knights, I believe, that there are three very important factors applicable to I guess not just this business but any industry in terms of quality, total cost and delivery.

I have wondered how the heck, you know, somewhere in the double digits, thousands of miles away from the U.S. could beat the delivery faction, but I guess it's because you're maintaining inventories is the difference is what you're saying?

MR. KNIGHTS: Sure.

MS. HUGHES: Okay. All right. There was some discussion about, was it failure records in terms

of parts per million or something, and you had said the industry standard is about 200?

MR. KNIGHTS: Correct.

MS. HUGHES: Okay. Well, wouldn't that just be comparing or just plain averaging Parker and the Chinese? They're the only participants in the industry, right? The two Chinese producers?

MR. KNIGHTS: When I talk about the industry, I mean product range throughout the complete unit, and contained within that average, there would be motors, compressors, steel work, valve fittings, everything combined.

MS. HUGHES: Oh, I see. Okay. It's not restricted to the FSV?

MR. KNIGHTS: Not just to the FSV.

MS. HUGHES: Oh, okay. Thank you. Would you happen to know what the failure rate for that is, or if somebody could find that out and put it in the postconference brief it would be helpful, okay?

MR. KNIGHTS: Sure.

MS. HUGHES: All right. I'm sorry. Again, I'm blaming my sinus infection on this. I don't remember if you stated whether you had worked for any other companies besides Goodman during your career?

MR. KNIGHTS: Sure.

MS. HUGHES: Okay. So then you're familiar with different OEM requirements and that kind of thing?

MR. KNIGHTS: Sure. Absolutely.

MS. HUGHES: Okay. Great. So in that case, how long have the Chinese been in the industry making FSVs in the market?

MR. KNIGHTS: Supplying to Goodman?

MS. HUGHES: Yes, or just in the market generally, whether it's Goodman. I don't know if they bought first or altogether.

MR. KNIGHTS: One would assume seven to eight years, something of that nature.

MS. HUGHES: Okay. All right. So in that period of time, have you seen any changes in quality from the Chinese product?

MR. KNIGHTS: I can only speak from my experience, which is from 2005 at Goodman and through the first period of my appointment now, 2005 through 2006, December, the supply was 100 percent Parker. Following that, we switched to a combination of Sanhua and DunAn and still maintenance of some parts through Parker. And the performance is clear. The performance of Parker declined in all elements. The performance of the Chinese I would suggest has been

exceptional from my standpoint in all elements of quality, cost and delivery.

MS. HUGHES: Okay. What goes into an assessment of quality? Are we talking about leakage over time or precisely what?

MR. KNIGHTS: Of the individual part or of the supplier?

MS. HUGHES: Of the individual part.

MR. KNIGHTS: Individual part is a measurement of its performance against the characteristics of the design or the specification parameters that you've set out. It either performs or it doesn't. It's kind of black and white.

MS. HUGHES: Okay. So when you're using the term quality you're probably talking about those factors as well as the company's ability to perform and deliver on time and all of that?

MR. KNIGHTS: Correct.

MS. HUGHES: Okay. You've seen that decline with Parker over time as well?

MR. KNIGHTS: Sure.

MS. HUGHES: Okay. So as an aside I would ask Petitioners in their postconference brief, which I'm sure they're anxious to do anyway, to respond to this argument and tell us of whatever complaints that

you've had about not only your delivery performance but, you know, your product meeting the specifications over time, okay? Thank you.

I thought I had understood that Parker had received some sort of awards in terms of quality, so, again, I may have misunderstood that, but if that is correct, if I could ask both parties to discuss that in their postconference briefs because that seems to be sort of a disconnect with what you're saying now. It would be better if I misunderstood it.

Okay. And if you're aware of quality problems with other OEMs since you have worked there before, that's one reason I was asking you, that you've worked for other OEMs and you would be familiar.

MR. KNIGHTS: Not within this industry.

MS. HUGHES: Not within this industry?

MR. KNIGHTS: Correct.

MS. HUGHES: Okay. If you guys have any, you know, insight how the other OEMs are responding to the Parker product versus the Chinese product in terms of quality, that would be somewhat helpful. Of course, it would be hearsay and all that, but it might be of some guidance, okay?

Now you had said that the approval

certification process only took 13 to 14 weeks for Goodman. That's Goodman. There are another six OEMs out there. I'm taking that that the one year figure we had heard earlier was a generality.

MR. KNIGHTS: Sure.

MS. HUGHES: There's a big difference obviously between, you know, three months and 12 months, so to the extent that either party again can pin that number down a little better for us it would be helpful. I mean, I don't know if Goodman's the aberration or if this is just a number that was thrown out and it could be fine tuned a bit. That would really be helpful to us, okay?

MR. KNIGHTS: Sure.

MS. HUGHES: Okay. And in your postconference brief, the same things I asked the other side.

If you could go through what you believe the pertinent conditions of competition are in the industry, we'd appreciate it, as well as analyze the volume, price and impact factors, state whether or not you believe Bratsk Aluminum Smelter v. United States applies and how the Commission should apply the replacement benefit test if it does apply, and analyze the threat factors that the Commission has to

consider, we'd greatly appreciate it.

Thank you very much.

MR. CARPENTER: Ms. Bryan?

MS. BRYAN: Thank you. Again, Nancy Bryan from the Office of Economics. Just jump right in here for a question for Mr. Knights. You sound very pleased with the Chinese product and quality, so I have to ask, if the Chinese imports happen to raise their price slightly, would you still buy them?

MR. KNIGHTS: There would be no reason not to.

MS. BRYAN: Then why, in your opinion -- and if anybody else wants to jump in here, please feel free to do so -- would the Chinese producers not raise their price? It sounds like they're leaving some money on the table if they could maintain customers.

MR. KNIGHTS: I have a different mentality and approach in doing business, I'm sure. At the end of the day, they have the opportunity to do that. There's a contract, there's a mechanism in place, there are various different elements of that contract that they can adhere to and apply to, and that's a joint thing between the two of us. By all means, you're willing to see that, too. No question.

MS. BRYAN: Okay. So you don't feel like

you actually give up anything when you have switched to the import sources over domestic sources?

MR. KNIGHTS: No.

MS. BRYAN: Okay.

MR. KNIGHTS: You've improved what you provide to the customer, which is important if that's what you do.

MS. BRYAN: Right. Okay. Thank you. Also, do you see any advantage in where the import sources are actually located geographically? Are they any closer to their OEM customers? Would that have any impact on delivery times or onset times?

MR. KNIGHTS: Again, it depends on how you structure the agreement between the organizations. For argument's sake, if you use in good terms 2000 and take a point of deliver duty paid to a particular warehouse, you establish the terms and conditions. It can be beneficial or not depending on how you choose to do that.

MS. BRYAN: Okay. Most of the sales are FOB in this market?

MR. KNIGHTS: Sure.

MS. BRYAN: Okay. All right. And I had brought up the exchange rate issue earlier this morning. Do you all want to make any comments about

the effect of that on --

MR. KNIGHTS: I mean that's an interesting comment made by the gentleman earlier that it hasn't changed that much. A decline from eight to seven is a big change, a big change. Sure the Chinese now have competition from within about the exchange rate, sure they also have the same world commodity exchange to purchase on.

It really does depend on the mentality of the provider of the product. At the end of the day, if you wish to structure your business along the lines of, for argument's sake let's take an example, Goodman, as an organization, chooses to hedge its material expense, it's feasible to do that. You then protect yourself against exposure and an incline or increase in market.

So you have these options which you can do. You can also hedge a currency. So it depends on what you do, it depends on how you structure your business for your customer, depends on what kind of position you provide for that customer.

If you choose not to hedge and ride a market where the commodities are increasing and have the entitlement mentality to be able to pass that through to your customer, that's not a good thing.

MS. BRYAN: Right. Okay. Thank you. Just to touch on this, the premium air-conditioning units again. Do you agree with the characterizations we've heard this morning that it's a very small share of the market and will likely continue to be small?

MR. KNIGHTS: It depends again on who the OEM is. For some OEMs, that's a large percentage of what they do. So be careful with that kind of --

MS. BRYAN: Okay, but for the market as a whole --

MR. KNIGHTS: For the market as a whole, again, it depends on what you classify as a premium unit, whether you classify it by brand or by performance. Whichever you choose, it's one of those that's open to interpretation, to be honest.

MS. BRYAN: Okay. One final question. Have you ever heard of an OEM actually switching out, or changing the design of a unit, or a typically FSV application to use one of the substitute products? I believe you were saying that it's feasible to redesign, but have you actually ever heard of someone doing that?

MR. KNIGHTS: Again, that would depend on the nature of the applied cost of that product. I can't speak for them. For us, yes, we would. If it

meant that it would give us a lower cost option for the customers, sure we'd do that.

MS. BRYAN: So you have done that in the past?

MR. KNIGHTS: For this particular product, no, but for many other products, yes.

MS. BRYAN: Okay. All right. That's all I have. Thank you.

MR. CARPENTER: Mr. Yost?

MR. YOST: Charles Yost, Office of Investigations. Thank you very much for coming. I'm going to enjoy reading the testimony in the postconference briefs very carefully, and I have no questions. Thank you.

MR. CARPENTER: Mr. Mata?

MR. MATA: I have no questions also, Mr. Carpenter.

MR. CARPENTER: Mr. Deyman?

MR. DEYMAN: I'm George Deyman, Office of Investigations. Mr. Knights, you mentioned that one or both of the Chinese suppliers were willing to ship you enough merchandise so that you would have inventories in your plant. Is that what I understood?

MR. KNIGHTS: No, in a consigned warehouse.

MR. DEYMAN: In a consigned warehouse here

in the United States.

MR. KNIGHTS: Correct.

MR. DEYMAN: Was Parker not willing to do the same thing to build up its inventory?

MR. KNIGHTS: Correct.

MR. DEYMAN: They were not willing to do so?

MR. KNIGHTS: Correct.

MR. DEYMAN: And you requested them to do that and they did not want to what, to deliver or to hold for you a certain amount of product?

MR. KNIGHTS: You know, the mechanics and the dynamics of U.S. industry versus offshore industry, you can't dictate a lot more of the terms versus an incumbent, it's easy to do.

The end of the day, when you have a historic supplier whose terms are passed on to the customer, you're entitled to the business, you have 90 percent market share, you've been in the business for 20 years, it's a different kind of negotiation to Mr. Yost's point, a very different kind of negotiation.

MR. DEYMAN: All right. In your postconference brief, if you have any more evidence or information about the inventory situation, it would be helpful.

MR. KNIGHTS: Sure.

MR. DEYMAN: My next couple of questions are for Mr. Pardo or Mr. Marshall. The petition indicates that both Sanhua and DunAn's production of FSVs is 100 percent export-oriented. Is it correct that your production is 100 percent export-oriented in China?

MR. PARDO: I believe that that is accurate; however, I would like to confirm that to give you a final answer, and it's certainly something we will address in the postconference brief if we can.

MR. DEYMAN: Sure, if you could. And whether it's 100 percent export oriented or not, are there any markets other than the United States to which you ship the same types of FSVs as you ship to the United States?

MR. PARDO: Again, sir, that's an issue we can address in the postconference brief.

MR. DEYMAN: Sure.

MR. CRAVEN: I think we have the same position then. I think we'll also relate to one of the answers that Ms. Lofgren asked about forged and bar stock.

MR. DEYMAN: Good, thank you. Also for Mr. Craven and Mr. Pardo, when you first began to produce FSVs for the U.S. market, did you do it because you on your own saw a market for the product in the United

States, or did you do it in response to inquiries by one or more customers in the United States?

MR. PARDO: Again, at the time, sir, I think it's a little difficult to speak with authority on that. My understanding, however, is that this was an opportunity that they saw for some of the reasons that have been discussed here about the current condition in the market, and that DunAn realized that they, with their production mentality, as Mr. Knights has pointed to, felt that they could compete within the U.S. market and make a profit.

MR. CRAVEN: I'd like to address that in the postconference brief.

MR. DEYMAN: Very well. Thank you. With regard to air conditioning systems in general, not just the valves but entire systems, are the great bulk of air conditioning systems for home use in the United States produced in the United States, or are there imports of entire systems?

MR. KNIGHTS: For the residential applications, it's mainly produced in the U.S. There are different applications today, cheaper alternatives today, a finished unit kind of approach that, whether you look at room air conditioners, the ones that you mount on the window, or whether you look at a mini-

split kind of system, which is a different approach, it's a dubless system if you like, but predominantly it's central air, U.S.

MR. DEYMAN: All right. I had one other question. It's more of an observation than a question, but you are going to have to bear with me because it's a little bit long, but it is perhaps of some importance. The scope definition in the petition indicates that FSVs are imported under HTSUS statistical reporting number 8415.90.8085. However, information that we received from Customs indicates that while service valves are indeed parts of air conditioning systems under heading 8415, they are more specifically provided for as hand-operated valves under another HTS subheading, that is, 8481, possibly as brass service valves under subheading 8481.80.10.

You'll have to bear with me on this. What I'm getting is, we are trying to determine under which HTS number the valves have actually been entering, and it does make a difference because the duty rate for the number that was in the petition is 1.4 percent, or as the product maybe should be coming in under another number which has a 4 percent duty. There's a duty rate difference. So now or in your postconference brief, could you let us know under which HTSUS numbers

the FSVs that you exported or imported were classified?

And with that, I have no further questions.

MR. PARDO: Sir, if I could just ask for a clarification, we can certainly provide that information, and unfortunately, that's not information that right now I'd feel confident --

MR. DEYMAN: That's fine.

MR. PARDO: -- giving you, but just to clarify, you're simply asking to get confirmation on what the classification is, as opposed to -- we're not now turning this into a classification inquiry, are we? You don't want justification for one as opposed to the other, or is that something that you're also --

MR. DEYMAN: No, I'm mainly trying to determine what the classification is.

MR. PARDO: Just simply you want to know what it came in under.

MR. DEYMAN: Right.

MR. PARDO: That's fine. Thank you.

MR. DEYMAN: If you have any thoughts on where the product should be classified, that would be helpful too. And with that, I have no further questions. Thank you very much.

MR. CARPENTER: Ms. Hughes?

MS. HUGHES: I'm sorry. I meant to ask Mr. Knights, does Goodman consider itself a large purchaser of FSVs? If you want to respond in postconference if you need to, that's fine.

MR. KNIGHTS: I mean, the data, the market share figures are available for people to see. We are probably in the low 20 percent of market share, so you'd say yes.

MS. HUGHES: Okay, all right. Would you have an idea how the other six OEMs rank in terms of market share?

MR. KNIGHTS: No. I mean, you have that data available. I don't have that.

MS. HUGHES: Okay. And so, in your postconference brief, if you haven't given us this already in response to questionnaire response, if you can let us know how much product you purchase in a given year on average, that would be helpful. Okay, and --

MR. KNIGHTS: You mean in terms of units or dollar value?

MS. HUGHES: I'm sorry?

MR. KNIGHTS: In terms of units or dollar value?

MS. HUGHES: Both would be helpful, if you

could, because I would imagine there would be some product mix issues, so I don't know. Probably asking you to break it down in different units would be too tedious, but whatever you think would be helpful for the Commission, in both units and dollars, would be great. Okay, and we've had quite a bit of discussion about demand tied to the economic climate, you know, the housing downturn and that sort of thing.

Have you found that the current economic climate has affected your purchases at all?

MR. KNIGHTS: Again, that depends on how you look at your business. Unfortunately for the industry, Goodman is one that continues to grow, so when you look at the industry as a whole, it's incremental or substitutional, the argument. Again, for us it's incremental business. For the industry as a whole, it's substitutional. So if you are taking market share when you're the OEM, we continue to grow.

We don't necessarily see the same problems as the other OEMs.

MS. HUGHES: So your growth hasn't slowed down, per se, since the housing industry's taken a downturn?

MR. KNIGHTS: No.

MS. HUGHES: Okay. Thanks very much.

MR. CARPENTER: Ms. Lofgren?

MS. LOFGREN: Again, I now have two general questions about DunAn and Sanhua. The first is, I understood from Mr. Knights's testimony that these producers may not use raw material surcharges that I believe Parker testified to using. Is that the case that there are no raw material surcharges in contracts for FSVs from China?

MR. PARDO: I'm sorry. Could you repeat the question, please?

MS. LOFGREN: Do either DunAn or Sanhua use raw material surcharges in their FSV contracts?

MR. PARDO: That's an issue we can address in the postconference brief. Thank you.

MR. CRAVEN: We'll also address it in our postconference brief.

MS. LOFGREN: Thank you, and my other question has to do with the consignment inventory and whether DunAn and Sanhua both stock those kinds of inventories in the U.S. and how that works. I'm familiar with consignment, but I just want to be sure that I am understanding this. Could you explain that now or would you rather do that in your brief?

MR. CRAVEN: I'd rather explain that in the postconference brief.

MR. PARDO: I think that would be our preference as well. It will be fully detailed there.

MS. HUGHES: I have one small question for Mr. Craven. I want to make sure I'm not missing an argument that you started to make in your opening remarks regarding patents. Were you suggesting that Parker has somehow cornered certain valve designs?

MR. CRAVEN: We will submit those. Parker has continued to develop a number of alternate valves for the FSV for which they have obtained patents or have patents pending, and to that extent that they have developed and are pushing alternate products, they certainly would be doing that at the expense of their FSV sales.

MS. HUGHES: Okay, but the product that is at issue in this investigation, the patents are not relevant then for this scope of product itself, just these alternative products?

MR. CRAVEN: No, no, not for the scope, but rather, when we get into the other product substitutes, but I would certainly -- no, no. Not for scope.

MS. LOFGREN: Okay, thank you. I have no further questions.

MR. CARPENTER: Again, thank you, gentlemen,

for your responses to our questions. It's been very helpful to us. At this point we'll take another short break of about five to ten minutes to allow parties to get their thoughts together about their rebuttal on closing statements, and we'll begin those with the Petitioners. Thank you.

(Whereupon, a short recess was taken.)

MR. CARPENTER: Could we resume the conference at this point, please?

Welcome back, Mr. Dinan.

MR. DINAN: Thank you very much, Mr. Carpenter, staff. Good afternoon. In summation, I believe that the evidence has been clear that Parker has met the test of showing that there is a reasonable indication of material injury or the threat thereof to a U.S. industry by virtue of imports of frontseating valves from China.

In the injury test, the Commission is required to look at the volume of imports of the subject merchandise, the effect of imports of that merchandise on prices in the United States with domestic like product, and the impact of imports of the merchandise on domestic producers, in this case, domestic producer, on the domestic like product FSVs. The evidence is clear.

The volume of imports has increased significantly during the POI. Chinese market share is large and increasing during the POI. Imports have had a significant negative effect on the U.S. industry. The Chinese producers Sanhua and DunAn have undersold the domestic like product by a substantial amount, and then this product -- this is particularly an important point and a key point -- when one considers that 98 to 99 percent of the raw material costs of the product, of the valves, is copper and brass, world-priced commodities on the open market which everybody pays the same price for.

Further, the evidence has clearly shown that the Chinese imports are causing lost sales, lost revenues, and lost customers. They have suppressed U.S. prices, suppressed U.S. prices while raw material prices have literally gone through the roof, in a large part because of the collapse in the equity and bond markets. There has been a decline in net sales, in operating income on the part of the U.S. industry, Parker, a decline in domestic shipments, decline in market share, and a decline in production, capacity utilization and employment.

None of these indicia of injury have been contradicted by the evidence that the Respondents have

put on, have been refuted by the evidence that the Respondents have put on, or even have largely, in part, been addressed. The case of showing of a reasonable indication of material injury is overwhelming, we would respectfully submit, as is the case of the threat of such injury.

I would now like to address a few of the points that came up in the Respondents' testimony. First of all, as concerns capacity, it's not a requirement of the statute that the U.S. industry be able to fully supply -- meet the market, but in this case, Parker can fully supply the market. As recently as 2005, they were fully supplying the market, or the 90 percent, 90-plus percent of the market that the six OEMs, that they service.

As Mr. Miller testified, that machinery is still there. Those lines are still there. Many of the employees are still there, and in New Haven, Indiana, the redundant employees could easily be brought back. Secondly, as to the statements about keeping inventory and large inventory, the main reason that the Chinese have to keep inventory is they make it in China. It's a long ways away.

The inventories are kept in Dublin, Ohio and Tyler, Texas by DunAn and Sanhua respectively. Parker

has never been asked to keep large inventories, and doesn't have to because of its just-in-time production processes where they provide the product on a five-day order, and there's never been an instance where OEMs have to shut down for lack of product.

Secondly, as to quality issues, we will address this fully in our posthearing brief, but we say with respect that when you see the evidence on quality on Parker on FSVs, you will see that the testimony today is not in accordance with that evidence. A key point, Mr. Knights testified about problems that they had with Parker in 2007. Parker did not sell FSVs to Goodman in 2007.

Further, we heard discussions of alternate technologies and patent issues, ball valves. Parker does have one patent on ball valves. Ball valves are made by numerous manufacturers worldwide, including DunAn and Sanhua, and in fact, Parker is nowhere near the major producer in the United States of ball valves. The largest producer of ball valves in the United States is a company called Mueller.

We further heard questions about acquisitions, market consolidation, which would seem to be leading to trying to have the listener draw the conclusion of market power. Yet, just in the period

of investigation, just in two and a half years, Parker lost 80 percent of its market. That hardly bespeaks of market power, and indeed, when one looks at the various points of competition between the OEMs and the supplier of a product that is one and a half percent the value of the end product, the air conditioner, I think is a matter of just pure orthodox economics that you can see why somebody could lose 80 percent.

There is no market power, and there never was. Plus there was Chatleff. Why did they go out of business? Directly because of Chinese imports. And finally, and probably the key on accusations on the quality, Parker has received no communications, verbal or written, or warranty claims, from any of the OEMs, and indeed, as Goodman testified, Mr. Knights, they are not receiving complaints from the customers. It creates a logical disconnect.

So in conclusion, we would submit that the evidence is overwhelming, that there is a reasonable indication of material injury, that the Respondents have put up no evidence to the contrary, and that the issues and considerations raised by the Respondents have been, and will be shown by the evidence more fully put forth in our postconference brief, to be without merit. Thank you very much.

Oh, before I pause, we did have -- there was a question about what the Chinese valves look like and our valves, and we did have some Chinese valves just to show the Commission staff. There are ours, and this is a Sanhua, and you can see it's essentially if not exactly identical, and this is a DunAn, which again you can see, and you could kind of go like this and it's very hard to tell the difference, but for the completion, though, of full disclosure, the one main difference is we use a plastic cap; they use a brass cap.

There is no functional difference. In fact, this is actually more expensive, the brass, but I think you can see that the flare, the shape, the design, it's all the same thing. Thank you.

MR. CARPENTER: Thank you, Mr. Dinan, for that statement, and we'll take a closer look at those samples after the conference if you don't mind.

Would the counsel for Respondents please come forward for their closing statement?

(Pause.)

MR. CARPENTER: Welcome back, Mr. Pardo.

MR. PARDO: Thank you, sir. Again, for the record, my name is Mark Pardo. I'm here today on behalf of DunAn. We just had some very brief

statements in closing.

To begin with, I think that based on the testimony we've heard here and the information presented to date, there's certainly nobody that will dispute the fact that the introduction into the U.S. market of both DunAn and Sanhua, additional Chinese players, has undeniably brought competition back into an industry that prior to that had really faced a lack of competition.

And as we had referred to earlier, one of the issues that we certainly urge the Commission to consider is the overall environment, the overall lay of the land within the industry and what the implications are of the introduction into competition in an industry where that was prior to lacking.

We've also heard a significant amount of discussion with respect to what are the decisions or the factors that go into the purchasing choices. And again, I would reiterate a complex product does require by necessity complex purchasing decisions. Mr. Knights' testimony touched on a number of issues with respect to Goodman's specific purchasing requirements, and most notably, I believe that he referred to several times their purchasing matrix, I'm not certain if that's the exact term he used, but the

underlying point was that 15 percent of their ultimate purchasing decision is really price-based whereas 85 percent is based on non-pricing decisions.

Unfortunately, again, much of this information really cannot be fleshed out in great detail here in the public conference. We certainly do look forward to providing the Commission and to you as much information as we possibly can obtain and provide to you in the limited time we have, but we certainly hope that this will in fact support our belief that the introduction, what we have here is a situation where new competition has been introduced into the market and this is not a situation where there has been injury due to less than fair value sales to the U.S. industry. Thank you.

MR. CARPENTER: Thank you, Mr. Pardo. And on behalf of the Commission and the staff, I do want to thank the witnesses who came here today as well as counsel for helping us understand this product and the conditions of competition. Before concluding, let me mention a few dates to keep in mind.

First, there will be an APO release tomorrow. The deadline for the submission of corrections to the transcript and for briefs in the investigation is Monday, April 14. If briefs contain

business proprietary information, a public version is due on April 15. The Commission has not yet scheduled its vote on the investigation. It will report its determination to the Secretary of Commerce on May 5, and Commissioners' opinions will be transmitted to Commerce on May 12.

Thank you for coming. This conference is adjourned.

(Whereupon, at 1:07 p.m., the preliminary conference in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Frontseating Service Valves from China

INVESTIGATION NO: 731-TA-1148

HEARING DATE: April 8, 2008

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: April 8, 2008 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).

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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).

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