UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
CERTAIN MAGNESIA CARBON	)	701-TA-468 and
BRICKS FROM CHINA AND	)	731-TA-1166-1167
MEXICO	)	(Preliminary)

REVISED AND CORRECTED COPY

Pages: 1 through 198

Place: Washington, D.C.

Date: August 19, 2009

HERITAGE REPORTING CORPORATION
Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
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Wednesday,
August 19, 2009

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, JOHN ASCIENZO, Acting Director of Investigations, presiding.

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ELIZABETH HAINES, INVESTIGATOR
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APPEARANCES: (cont'd.)

In Support of the Imposition of Antidumping and Countervailing Duties:

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RICHARD W. COPP, Vice President of Sales and Marketing, Resco Products, Inc.
TIM POWELL, Vice President of Finance and Chief Financial Officer, Resco Products, Inc.
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In Opposition to the Imposition of Antidumping and Countervailing Duties:

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Washington, D.C.

I N D E X

I N D E X

P R O C E E D I N G S

(9:30 a.m.)

MR. ASCIENZO: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping duty investigation Nos. 701-TA-468 and 731-TA-1166-1167 concerning imports of Certain Magnesia Carbon Bricks From China and Mexico.

My name is John Ascienzo, and I am the Commission's Acting Director of the Office of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my far right, Jim McClure, the supervisory investigator; Elizabeth Haines, the investigator; Michael Haldenstein, the attorney/advisor; James Fetzer, the economist; Charles Yost, the auditor; Vincent DeSapio, the industry analyst; and Michelle Koscielski, the industry analyst.

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

Are there any questions?

(No response.)

MR. ASCIENZO: If not, welcome, Ms. Mazard. Please proceed with your opening statement.

MS. MAZARD: Thank you. Good morning, members of the Commission's investigative team. My name is Camelia Mazard, and I'm with the law firm of Doyle, Barlow & Mazard. I appear before you today on behalf of Petitioner Resco Products, Inc., a domestic producer of magnesia carbon brick, the subject of this investigation. We will also refer to these products today as MCB.

With me today are Bill Brown, Resco's President and CEO; Rick Copp, Resco's Vice President of Sales and Marketing; Tim Powell, Resco's Chief Financial Officer; and John Castilano, Resco's Chief Operating Officer; Andre Barlow and Robert Doyle of Doyle, Barlow & Mazard; and Pat Magrath, our economic consultant on this case.

Mr. Brown, Mr. Copp and Mr. Magrath will also be making oral presentations. Mr. Powell and Mr. Castilano will be available to answer questions, as will the entire panel.

In addition to those present who support the petition, we received statements of support for this

petition from the Honorable Congressman Murphy of Pennsylvania, the Honorable Congressman Visclosky of Indiana, the Steel Manufacturers Association, the United Steel Workers and from the Refractories Institute, which is the trade association for the refractories industry.

The first presentation today will be from Bill Brown, who will provide you with the history of MCB and describe the product, give you information about Resco and the industry and explain how imports negatively impact the domestic industry and Resco in particular.

Rick Copp will then talk about the current market conditions, explain how the product is sold, describe the channels of distribution, contracts, the way sales negotiations are conducted and demonstrate how imports are being used by customers to negotiate lower prices and replace sales of U.S. producers, including Resco.

Mr. Magrath will address how price is the dominant variable in a purchaser's decision, the significant volume and market share of unfair, low-priced imports from Mexico and China and how these imports' volume and prices take U.S. sales and cause a loss of revenue to U.S. producers in the U.S. market.

He will then address the adverse impact these imports have had on U.S. MCB production and the threat of imminent injury these imports pose. I will close the testimony with a discussion of like product issues.

As set forth in our petition, the questionnaire responses and as you will hear today, the domestic industry that manufactures MCB is currently experiencing and is threatened with material injury by reason of less than fair value imports of MCB from China and Mexico.

Most certainly, there is a reasonable indication of the existence of such injury and the cause of the injury. We are also here because these Chinese MCB producers diverted exports to the U.S. market because of the dumping orders in place in the European Union and in Turkey to the detriment of the U.S. industry.

Thank you very much for your time and consideration today.

MR. ASCIENZO: Thank you.

Ms. Levinson? Microphone, please?

MS. LEVINSON: Good morning. I'm Lizbeth Levinson from Garvey Schubert Barer. I'm counsel for Fedmet Resources, Inc. and S&S Intersource, two of the

largest importers of MCBs from China.

This case is unusual in that even the petition itself does not establish a prima facie cause of injury. It is clear from Petitioner's own information, which is apparently the most favorable information that it could amass, that a "significant increase in imports and import market share" is attributable to only one year of data.

When the Petitioner's own estimates are analyzed over the full year period of investigation, cumulative imports actually decreased both in terms of absolute volume and as a share of U.S. consumption, and I'm referring to the chart that's at page 23 of the petition.

No claim of an increase in import volume whatsoever can be discerned from the petition. Moreover, Petitioner's volume analysis fails entirely to account for half year 2009 when Chinese import volume collapsed due to the ongoing recession. Unlike the petition, the Commission's volume analysis must take into account the most recent interim period.

Meanwhile, the Petitioner's pricing allegations are equally as feeble. First, Petitioner claims that MCBs are a commodity product. However, as our witnesses will testify, MCBs are often customized

to an individual purchaser's dedicated equipment.

Second, there is no evidence of price suppression as prices during the period of investigation have increased in tandem with rising raw material costs. Nor have Petitioners alleged any cost/price squeeze and have presented no evidence of price suppression.

The Commission should carefully scrutinize Petitioner's lost sales allegations. In fact, the president of S&S Intersource will testify that until recently he had not even encountered Petitioner Resco in the U.S. market.

With respect to the impact of imports on the domestic industry, the Petitioner admits that there's been no decrease in capacity and that the reduction in U.S. shipments is too small to range for purposes of the public version, but only that its profits are somehow "inadequate" and it had to implement drastic and painful cost cutting measures. However, in the face of the current global recession what company in any industry has not had to face similar challenges and cost cuts and cut costs, shed employees and trim profit margins?

The Commission's injury analysis is required to take into account the conditions of competition in

which the industry operates and the business cycle. The current global recession and not the presence or absence of cumulated imports is the cause of any injury to the domestic industry, as even the petition itself shows.

Thank you very much.

MR. ASCIENZO: Thank you.

MR. BROWN: Good morning, members of the Commission's investigative team. My name is Bill Brown, and I'm President and CEO of Resco.

I would first like to thank you for the opportunity to testify here today in support of Resco's antidumping duty petition. As Ms. Mazard stated, my testimony this morning will focus on the history of MCB and how the import problem affects domestic producers such as Resco.

As background, I've worked in the refractories industry for 45 years, the past 11 years with Resco and before then for 33 years at Harvis & Walker, which is now part of ANH Refractories, one of four producers in this investigation.

My dad worked at Harvis & Walker, and I went to college on a Harvis & Walker scholarship. I began my career as a quality control technician and became a refractory salesman calling on the steel industry in

1972 and stayed into that role until 1993, so the refractories business has been putting meat and potatoes on my table for most of my life.

MCB technology was introduced in the mid 1970s for lining electric arc furnaces or EAFs in order to contain the melting steel and aggressive slags. In EAFs, MCB lined the slag lines, some upper sidewalls and occasionally some roof linings.

They are also used to line basic oxygen furnaces primarily in the working linings and occasionally in the brick backup linings. Steel transfer ladles and steel processing ladles use MCB primarily in the slag lines, as you can see in the drawings we brought today to the ITC.

Beginning in 1983 at Harbison & Walker, I headed the Iron & Steel Technical Department for nine years where I was intimately involved with MCB mix formulation, development and actively participated in the evolution of MCB to serve the steel industry. I then became General Manager of Sales & Marketing for the steel industry at Harbison & Walker for six years before becoming the Vice President of Sales for the whole company.

In 1998, I left Harbison & Walker and became President and CEO of Resco, and two years later Resco

acquired Harbison & Walker's MCB plant in Hammond, Indiana, from the company represented in the back of the room now, RHI-AG, as a result of a divestiture required by the Federal Trade Commission when RHI-AG acquired Harbison & Walker.

Hence, the very MCB production and technology with which I was familiar and helped develop for 15 years when I worked for Harbison & Walker became part of my new company, Resco. In addition, in 2007 and 2008 I served as the Chairman of the Refractories Institute, an industry association. I therefore have personal knowledge regarding all aspects of MCB production and sales in the U.S. market.

Resco is a privately owned company founded in 1946 with headquarters in Pittsburgh. We have 12 operating plants and two mining operations. One of these operating plants is in Hammond, Indiana, where MCB is produced. The company has been known to be a leader in the refractory industry and strives to continuously develop proprietary heat-resistent products and special formulations.

I would now like to turn to a discussion on the volume of imports. As background to the volume discussion, it should be stated that both Chinese and

Mexicans have been dumping in this country for some time.

Having adopted this export growth strategy, the Chinese and Mexican MCB producers began to realize the benefits of their aggressive pricing as early as the year 2000. Unfortunately for the domestic MCB industry, as a result of their aggressive pricing these foreign producers were able to both increase their exports into the United States and grow their share of the U.S. market to approximately 50 percent during periods of increasing and decreasing U.S. MCB demand.

To make matters even worse, the Chinese Government subsidizes the production of MCB in China, thereby further enabling these producers to sell in the United States at dumped prices. This exacerbated situation is evidenced by what we believe to be triple digit dumping margins for MCB imports.

I would now like to state that although the recent decline in steel production may explain some of the injury to the U.S. MCB industry, the sharp increase in lost sales and revenues experienced by Resco was brought on solely as a result of the subject imports.

Indeed, Resco began to lose sales and

revenues to dumped imports much earlier over this period of investigation. From 2006 to 2008 when the U.S. steel industry was robust, what we saw in the marketplace were price offerings by the Chinese and Mexican MCB producers that were so low we became increasingly unable to compete profitably.

In fact, the pricing at several of Resco's key accounts are now at or near our production cost. In contrast, prices in other product lines such as aluminum magnesia graphite bricks and fired bricks have either been stable or even improved over the period of the investigation.

The market share of MCB imports into the United States is close to 50 percent, and the prices at which these products are sold and offered for sale by Resco continue to be suppressed in order to meet the price of these imports. Hence, as a result of unfair competition we have continued to lose sales and receive inadequate pricing on both new and ongoing contracts.

I personally unfortunately had the job of reducing employment in our Hammond MCB facility and at headquarters in Pittsburgh over the last two years as a result of the lost sales and revenues that I mentioned. This role is probably one of the most

painful parts of the job as the head of a company.

As a result of imported MCB from China and Mexico, I let go of over 30 percent of the United Steel Workers at our Hammond facility. As Mr. Gerard's statement to the ITC says, in his capacity as the International President of the USW the jobs and livelihoods of these union workers depend on the ability of Resco and other domestic MCB producers to compete fairly against foreign imported MCB.

Not only have we been forced to dramatically reduce U.S. employment; we also began to source a percentage of our sales from China to compete with low-priced Chinese and Mexican imports for those customers who do not differentiate products except by price, price and price.

As evidenced in both our petition and questionnaire responses, since 2007 we experienced declines in shipments, production, employment and research and development spending, for example. We therefore believe it is apparent that Resco is materially injured by reason of these unfairly priced imports from China and Mexico. In fact, these imports now even threaten the very existence of our U.S. MCB plant at Hammond.

As it stands, in order to survive Resco

reduced the work week for its remaining employees at Hammond by about 20 percent and made similar cuts in salaried personnel and benefits at both Hammond and its Pittsburgh office. These extreme measures allowed Resco to keep its operations going this past year. However, for those employees who remain they will be subject to even further reduction in compensation due to even shorter work weeks and lower benefits.

As you can see, subject imports forced Resco to sharply curtail production and to continue to implement painful employee and compensation cuts. These cuts permeate all levels of the company. The four top executives from Resco who are here today have taken a 65 percent compensation reduction since the middle of last year.

The domestic industry consists of four players: ANH Refractories, LWB Refractories, TYK America and Resco. According to officials at both LWB and TYK, the other two domestic producers who support Resco's petition, both companies also experienced low production and cut back over the period of investigation due to the low-priced Chinese and Mexican MCB imports.

However, the most important adverse effect on all U.S. MCB production as a result of Chinese and

Mexican imports has been the need to drastically reduce all of our workforces. The loss of these jobs has had a huge impact on all of our local communities as we all have historically been important employers in Indiana, Pennsylvania and Michigan.

In the increasingly competitive market of MCB, we must continue to invest in research and development. However, given the injury caused by MCB imports, Resco has been unable to increase investments in product development.

For example, we planned to install a hydraulic press at Hammond in 2006 to prepare for a potential increase in MCB production due to the increase in steel production. However, low-priced imports from China and Mexico captured the increased volume of MCB required due to the increase in steel production, and that press still sits at the Hammond plant uninstalled and unused.

Dumped imports from China and Mexico also resulted in lost sales and revenues across a spectrum of customers. Although I noted earlier that some lost business can be attributed to declines in steel industry demand, the domestic industry lost sales and was forced to reduce prices disproportionately to customers who chose to buy lower priced Chinese and

Mexican imports.

In addition, when the U.S. steel industry was robust from January 2006 to September 2008, which resulted in a very strong demand for MCB, these imports were still able to capture half of the U.S. market, robbing Resco and the rest of the MCB industry of profits in these good times which would have helped us weather the inevitable downturn in demand such as the one we're now experiencing.

As I alluded to previously, Resco's Hammond plant is now facing extinction as a result of unfairly priced imports from China and Mexico. These imports from China and Mexico significantly reduced employment at Resco and are also reflected in a number of declining performance indicators during the period of investigation. As our petition shows, we lost numerous sales to these imports over the POI and were forced to reduce prices at many existing accounts in order to retain their business.

On the issue of threat of subject imports, we cannot conclude that the list of the 35 producers we included in our petition was an all-inclusive list of suppliers from China as the number of refractory producers in that country is vast. Furthermore, almost all of these MCB producers claim to be export

oriented and actively target their sales to the U.S. market.

In addition, the Mexican producer is well positioned for ongoing growth in the U.S. market and remains a core asset of its Austrian parent, RHI-AG. With a strong marketing arm in the United States, VRA, RHI imports MCB from both Mexico and China to try and gain share in the United States, adjusting their dumped imports to come from whatever source, China or Mexico, which gains them the most advantage.

As noted earlier, the Chinese and Mexican producers are export oriented. In this context, it should be recognized that over the longer term these companies can only achieve significant growth by increasing exports to the United States despite the recent downturn in demand.

Having driven Resco's Hammond plant to a financial breaking point, subject imports now threaten that plant's very survival. You need only look at the evidence of lost sales and revenues the domestic industry provided to the ITC to understand the lengths to which these Chinese and Mexican producers are willing to go to gain U.S. market share.

What is particularly worrisome to me is that because of their dominant share of the U.S. market,

export restraints on raw materials in China and the incredibly high margins of dumping, subject producers in China are insulated from any meaningful competition. Further, the Chinese Government subsidizes these low-priced imports into the United States.

As the foregoing domestic industry data indicate, in such an environment the very existence of Resco's MCB production is at stake. Accordingly, the domestic industry requires immediate relief from the adverse effects of unfairly traded MCB from China and Mexico.

I've been in this industry 45 years, and Resco has been supplying refractory products for over 50 years. We've seen the good times and we've experienced difficult, challenging periods, but this injury and these threats from imports is different than the cyclical economic periods we worked through because of the large percentage of sales these MCB imports represent. Today I respectfully ask the Commission's investigative team to please help save our industry.

Thank you for allowing us to present Resco's and the industry's story here today. I do thank you for your attention and am happy to answer any

questions you may have at the conclusion of our presentation. Thank you.

MR. COPP: Good morning, Commission staff, ladies and gentlemen. My name is Rick Copp. My present position is Vice President of Sales and Marketing at Resco Products, Inc. In this position I am responsible for sales for MCB and other refractory products nationwide.

I am the chief representative of the company in its sales and contract negotiations with the steel companies for MCB products. In total, I have been in the refractory business for 30 years with nine years at Resco. I'm a ceramic engineer by schooling and started my career with Harbison & Walker Refractories in 1979. With Harbison & Walker, in the early 1980s I was plant engineer at the Hammond facility and installed the first hydraulic press to manufacture the MCB for Harbison & Walker.

My testimony will be to describe the market for MCB in the United States, the sale of MCB and the difficulties we face in the market every day due to the fact that approximately 50 percent of our market has been taken over by unfair imports from China and Mexico.

Let me start by describing the negotiation

process by which MCB products are sold. It is a very competitive process with Resco and other refractory suppliers, both producers and distributors, bidding for the chance to supply the various refractory linings in BOFs, EAFs and ladles.

Of these categories, ladles are by far the largest user of MCB, followed by EAF. Sales of MCB for BOF linings are a minor portion of sales due to the steel manufacturing practices which have extended the life in this application. That scenario holds true for all suppliers.

I have been told that the Commission and its staff know a great deal about the steel industry. Therefore, I will not spend much time on it except to emphasize the fact that it transformed itself over the last 15 years and consolidated through merger and acquisition, mothballed or eliminated excess capacity and closed facilities.

In its current consolidated state and facing stiff and many times unfair competition for its products, steel companies are knowledgeable and tough negotiators, requiring constant product improvement and best total value with the least cost solutions from their suppliers, including refractory product suppliers.

We consider our ability to work with steel companies to provide higher valuer, longer lasting and even wear refractories and technical service to be integral parts of the sale process and the reason to choose Resco products. The frustrating part of this process is that increasingly our research and development of higher value, higher wear products, including MCB, and other desired factors such as short delivery times and after sale technical service are easily trumped in the negotiating process by low-priced bids on MCB imports from China and Mexico that are offered by importers and distributors on a price only basis.

Don't get me wrong. Although I believe that Resco offers the highest quality MCB products in the market, the Chinese and Mexican producers offer MCB very similar to ours in quality and performance. In fact, many Chinese and certainly the lone Mexico producers are affiliated with large international refractory manufacturers who make quality products.

But being unable to match Resco's down-the-street delivery times or its technical service, they compete from abroad with the only tool that they available, which is low, dumped -- and in the case of Chinese, subsidized -- prices. At that point in the

contract negotiation process, because quality, availability and other important nonprice factors are assumed from Resco, the negotiation boils down to a matter of price, price and price.

Can we meet the low-price offerings of Refmex and any number of Chinese suppliers? Increasingly over the last several years the answer is no. In fact, import prices are so low there is no way for Resco to even get in the door, and we have to give the entire MCB portion of the contract to the import supplier.

In fact, increasingly imported MCB is used as a wedge product as steel industry customers tend to prefer one-stop shopping for their refractory products due to liability and convenience issues. Very low-priced MCB offers are used to swing the entire refractory package over to import suppliers unless we lower our prices. This situation causes Resco and other U.S. producers both direct injury to MCB operations and indirect injury to their entire refractory products business.

Resco and other domestic producers have been battling imports for this entire decade as imports from China and Mexico began to enter the U.S. market in 2000, correlating with a decline in steel

production during this time period. The industry responded with a number of initiatives, with many exiting the business entirely or dropping MCB from their product lines. During this same period, other refractory producers set up facilities in China such as RHI and Vesuvius Cookson.

China subsidizes its MCB manufacturers. It also restricts the export of MCBs' principal raw material, magnesia, so as to allow its own Chinese MCB producers artificially low raw material prices while charging U.S. MCB producers manipulated, high magnesia prices.

Finally, Mr. Brown and the rest of the management team decided we could not afford to keep losing contract after contract. The decision to file this case was actually made for us with the sudden and deep decline in the economy in September of 2008. In a very short amount of time, what was an injurious situation became a disaster. The collapse in housing impacted the entire economy.

The most cyclical of sectors such as steel were hit the hardest by the downturn, and in short order it was our turn. Like a marble falling off the end of a table, MCB orders getting ready to ship were canceled, negotiations were called off, customers

called to say they were shutting down capacity and were short on cash and would work inventories down to the bare walls before ordering more product.

But this difficult time would not have been as devastating for Resco if unfair MCB imports had not been a constant overhang in the marketplace. In fact, other refractory products made by us, although not flourishing, are holding their own and contributing to revenues in this difficult market.

MCB imports greatly intensified and deepened the recession for us and other U.S. producers. Specifically due to the long lead times required to order imports from China, the boom conditions prevalent up to the fourth quarter of 2008, followed by the abrupt slowdown, caused large amounts of Chinese products to be either caught on the water or in the importers' inventories. These inventories have sold and are being sold currently in a severely depressed end market at fire sale prices just to maintain a cashflow for importers.

As if selling against dumped and subsidized Chinese material was not a difficult enough market situation, we on the front lines were surprised to recently see more and more Mexican product in the marketplace after the economy went into a recession.

This impression of an increased presence of Mexican MCB product was verified to me when I saw the strong increase in imports from Mexico reported in the public statistics starting in late 2008.

In conclusion, what was an import situation that was slowly taking away Resco's MCB customers and ability to make money on those sales that we did make has been intensified by the recession and the drop in demand became a life and death market situation for Resco and other U.S. producers.

You already heard Bill talk about the drastic sacrifices we were forced to take in the areas of layoffs and compensation cutbacks. The question is what can we do next in the situation of a depressed market made much worse by huge import inventory overhang and market share conditions indefinitely? The answer to this question is why Resco, on behalf of this industry, has brought this case now.

Thank you for allowing me the opportunity to testify today. I'll be pleased to answer any questions you may have.

MR. MAGRATH: Good morning. I'm Patrick Magrath, consultant to Petitioner in this case. Could I have a time check?

MALE VOICE: Twenty-eight.

MR. MAGRATH: That's 32 then, I think. I'm not good at numbers.

Good morning, members of the Commission staff and ladies and gentlemen. As I said, I'm Pat Magrath, a consultant representing Resco in this case. I'm going to discuss the economic issues in this investigation, conditions of competition in the U.S. market, the volume price and impact of unfair imports in China and Mexico on the U.S. industry producing MCB.

I'd like to thank the staff right at the start here for their efforts to get us as much data as possible on the record -- I'm talking about the large APO dump of yesterday -- before this staff conference. It was very helpful, despite the dark circles under my eyes.

The panel before you today represents the lone Petitioner in this case, Resco Products. It is a relatively small industry in number, as you can see, with only four producers. Although two of the other three producers support the petition, and those letters of support were in our petition, we have been voluntarily given the data from only one, LWB. Therefore, our discussion is limited to Resco and LWB, and therefore no number specific data can be

discussed.

Our analysis starts with a discussion of the conditions of competition. The first usually analyzed by the Commission is demand or consumption. The ITC, and it's already been referred to, will see a tale of two markets.

The testimony may be similar to most cases brought recently. In this case, Mr. Brown testified to the widely known fact that the product was developed for the steel industry and that MCB demand counts heavily on the trend in steel production in the United States.

For most of the period, from 2006 to almost the end of 2008, demand was good. Then it dropped precipitously beginning in the fourth quarter of last year, and it has remained at very low levels through the end of the POI, now a full six months of 2009. This precipitous decline in steel production, followed by MCB demand, is global in nature, resulting in a sudden and substantial increase in unused capacity and inventory worldwide.

As to supply, this sudden and deep decline in MCBs' end market steel production resulted in large scale idling of MCB productive capacity not only in the United States, which you can see from the

questionnaires, but also globally, which I think you will find in the questionnaires.

This sudden idling of large portions of productive capacity is reflective in the questionnaire responses and with important conclusions to be drawn for the issues of the impact of imports on U.S. producers in the present injury context, as well as the threat of continued injury.

Aside from these background factors of supply and demand, the ITC usually considers at least one or two other factors peculiar to the industry and market. One market factor is the existence of potential substitutes for the like product. Another is the importance of price as a variable in purchasing decisions. With MCB, there are no substitutes.

MCBs high performance in the most critical steelmaking operations along the slag line place it at the top of the refractory materials performance and cost hierarchy. There are no substitutes for MCBs performance in these critical furnace and ladle areas, so its sales and prices are not adversely impacted by cheaper alternative materials.

Second, its greater expense and value mean that it does not substitute for lower performing, lower cost refractories in areas of the furnace or

ladle where lesser refractory products will suffice. The staff can already see corroboration of these points from the responses to questionnaires it has received already.

Also important to the causation issue, there is majority agreement on questionnaires that imported and domestic MCB are always or frequently interchangeable; that is, imports and domestic MCB can physically be used in the same applications, and that non-price factors are never or at most only sometimes a significant factor in purchasing decisions.

Also, the staff should note the few examples, other than price, that importers state may sometimes be significant in these purchasing decisions, the factors that they named. Are these factors likely to give imported products or domestic products an edge?

In short, in the questionnaires so far, you know, you look for this, but importers appear to provide no explanations as to how China and Mexico have so greatly increased their exports in recent years to a market share approaching one-half of the U.S. market. Petitioner offers that the unfair low prices are the primary, if not the only, reason that these physically interchangeable refractory products

are increasingly sourced from the two responding countries.

A final general factor that colors the industry and market data in this case is when unfair imports entered the market and when they began injuring U.S. producers. As both Mr. Brown and Mr. Copp testified, imports from subject countries first entered and began gaining share in the U.S. in the early 2000s. Using prices far below domestic, subject imports gained market share throughout this decade and history shows the domestic industry was thrown into a turmoil of closures and consolidations.

By the time our POI begins in 2006 then, a boom in the economy and steel production in particular led to healthy increases in MCB sales, total sales, albeit in a market that had become increasingly serviced by unfair imports. Thus, most of the present POI will not show sharply downward declining trends in trade and financial indicia. Those declines happened earlier as did the surge in import penetration to this 40 - 45 percent large share of the market.

Injury by reason of imports is not hard to find in the MCB injury database however. What you see ongoing injuries with declining and well under 50 percent capacity utilization, declining production,

declining employment and hours worked, single-digit variety, and low, although positive, operating profits throughout most of the POI, all occur in the midst of an economic boom in their in-markets. So these deteriorating and inadequate levels of what should be the top of the business cycle for MCB producers they may not be as obvious, but they are just as injurious as the dramatic and deep downturns the U.S. industry reported in the first six months of 2009.

As to the volume affect of imports, the imports of MCB have been a significant presence both in absolute volume and relative to domestic consumption and production through the POI. We estimate imports from the two countries, and China has a larger presence than Mexico, declined from 2006 to 2007, and then rose in 2008, despite the sudden downturn in the market in the last quarter. Subject volumes are significant throughout the POI at above 40 percent of consumption in the U.S. market, we estimate, and increasing to 45 percent in 2008, the most recent full year of the period.

Although subject import volumes on accumulated basis may have declined somewhat in interim 2009, subject imports as a percent of total MCB sales may have actually increased as importers are

working off loaded inventories built up by the sudden drop in steel production and MCB demand in the fourth quarter when Mr. Copp said the marble dropped off the table.

Notably, import data under HTS No. 69091010 where the great majority of these MCB imports are likely to dwell show exports from Respondent countries -- Respondent Country Mexico reencounter to the declining trend actually, increasing their exports to the U.S. market substantially as the recession set in, in late 2008. We think much of this volume in this public HTS category is MCB. The questionnaires will tell.

As stated, given the lack of specific import categories the parties will have to wait until a sufficient number of questionnaires are collected and compiled. However, we would like to emphasize we expect the actual number of imports and market share to be close to where our petition estimates. Subject imports at high levels absolutely, and approaching 50 percent of the U.S. market.

As to price, the effective of subject imports on U.S. prices also awaits the full gathering and compilation of questionnaires. The questionnaire responses to this point shows significant -- 20 - 30

percent generally -- underselling by subject imports. In order to ensure -- which is done to ensure continued Chinese and Mexican success in gaining and maintaining this large market share in which it has acknowledged that the imported and domestic products are physically interchangeable.

We believe that the pricing data still being gathered by the staff will continue to show widespread of substantial margins of underselling by the imported MCB. Although what U.S. prices we have now show some prices of U.S. producers to have increased in 2008, they increased in response to raw material and other cost increases and did nothing to improve the industry's profitability which actually was about cut in half from 2007 to 2008.

A good example of increasing raw material costs unique to this industry is the price of magnesia, the principal raw material of MCB. One of the world's largest sources of this material is China. Chinese government policies on magnesia and MCB result in U.S. MCB producers put into a cost price squeeze by the GOC. The GOC's restraints on various mineral and metal exports in their raw form, including magnesium from which magnesia is made, is the subject of a 301 petition filed by USTR at the WTO on June 23rd, just

two months ago. WTO notice of U.S. request for consultation was provided in our petition.

Separately, cartels formed by Chinese producers and exporters to control the price of magnesia for export are the subject of a lawsuit filed in U.S. Court alleging the forming and maintenance of such cartels to maintain artificially high prices for Chinese magnesia exports. It is U.S. producers that have to pay such artificial high prices for their magnesia imports to their disadvantage.

The low and inadequate profits are caused by U.S. producers being held back from charging customers prices sufficient to increased revenues over cost. Such prices are suppressed, in the current recessionary market they are depressed by the weight of almost half of the market being supplied by unfair imports. Indeed, working with the questionnaires we have at present preliminary comparisons indicate deep underselling, as we've stated.

As to the impact of imports, the impact of this large volume of unfair imports line over the U.S. market like a shroud throughout the POI resulted in anemic profitability and ending in operating losses in 2009. But other industry indicia traditionally examined by the Commission declined over the POI, with

those declines accelerating alarmingly in the most recently interim period.

For example, declines in production, capacity utilization, employment, hours worked, after declining by single digit levels in the first three years of the POI generally, all dropped substantially in 2009. Enervated by its mediocre performance due to imports at the top of the cycle, the domestic industry is now experiencing huge declines from which it does not have the built-up strength to long endure.

The weak, slightly above break-even profits have crossed into the red in the interim period. The operating loss in 2009 may seem modest but they have come at the steep price of precipitous cutbacks by U.S. producers in employees and compensation. Mr. Brown described the breathtaking steps that have been done at Resco to cut costs in the personnel and in the compensation areas.

These type of drastic cuts can't be maintained over a long period of time. Relief for the industry is needed.

To close the discussion of present injury, we anticipated our opponents' arguments against data that is being reported currently on U.S. producers' questionnaires that is now being submitted. That

argument will be, and as a matter of fact Ms. Levinson has already said it, that the most recent precipitous declines in industry indicia are due to the general economic recession and the resultant decline in steel industry production, and not the measly, little 40, 45, 50 percent or so share of the unfair imports in this market.

To counter their argument are the 26 instances of lost sales and 23 instances of lost revenue developed by Resco which total to a loss of many millions of dollars of potential revenue. These are directly attributable to imports. Many of these instances in fact involve Mexico, especially in the most recent period since the recession hit. Other producers have also submitted still more instances of lost sales which we feel at the end of the day are very valuable real-world examples of the direct and injurious impact of unfair imports, an impact that is separate from the recession.

These many instances show that while the total market may have shrunk on its own in 2009, domestic producer declines are much greater for MCB, and have as a cause unfair imports, and independent and separate from the general market conditions.

I would also like to stick in -- I should

repeat Mr. Brown's point a few minutes ago that for Resco other refractory products are doing better in this market, better than MCB.

Why is that? Why are they doing noticeably better than MCB if this is all about the recession? Wouldn't those product all have been comparable hit by this slowdown in demand?

Before I conclude, this is the point in my testimony where Mr. McClure always brightens up when I say I'm going to conclude, a few points should be added to what Mr. Brown stated about the threat of injury very quickly.

First, export subsidies by the GOC have been alleged and will be found in this case. To these subsidies, we can add the other meddling by the state and China in the other market on behalf of Chinese MCB producers for magnesia, resulting in continued disadvantages to domestic MCB producers.

Second, public statistics, as we have stated, show Mexican exports of magnesite bricks, that is, the basket category of which MCB is a part, to have increased suddenly in late 2008, I should say the month-by-month statistics, right as the world slipped into a recession. We believe the Mexican producer was literally dumping product into the U.S. market to

reduce his inventory levels in the face of a rapidly slowing market for refractory products.

We believe that to move the product in this declining market the Mexican producer would have had to make huge price concessions which would show large underselling margins when the staff totals the questionnaire responses and compares them to U.S. prices.

Third, in general, the underselling margins we have calculated with the data we show large margins of underselling. This shows the ability and willingness on the part of import suppliers to continue to do whatever it takes to maintain and increase their already significant market share, and in this recessionary market to turn inventory into whatever cash it will bring.

Finally, we would like to take one out of the policy debates concerning the recession and the hope for recovery. There is a concern, you read in the newspapers, that if the U.S. comes out of the recession first other countries will pile into our market with their exports, thereby recovering on our coattails, and not to mention on the backs of U.S. manufacturing and its workers.

For the MCB industry and its steel industry

customers, it's a recession everywhere, all over the globe. Capacity in the subject countries, they were just enumerated that threat factor, has taken a frightening plunge everywhere, capacity utilization I should say. That unused capacity will go to the U.S. market in the form of more imports, especially if we are the first to recover from this global slump.

In other words, the unused capacity has suddenly increased everywhere and at levels no producer can sustain for very long. This will mean an acceleration absent import relief of unfair imports into this market at whatever prices are needed to move that product.

That concludes my testimony. I will be happy to take questions. Our final witness is Ms. Mazard.

MS. MAZARD: Could I get a quick time check?

Camelia Mazard again from Doyle, Barlow & Mazard. I want to conclude our presentation by addressing the definition of domestic-like products.

As you know, the definition of the domestic-like product begins with examining the scope of the case. The scope of this case consists of certainly chemically bonded, MCBs, whose magnesia component contains at least 70 percent magnesia, with carbon

levels ranging from trace amounts to 30 percent. MCB can be further enhanced with the combination of other treatments such as pitch or resin impregnation, high-temperature treatments, and metal casing.

Depending on the specific application and configuration of the furnace or ladle linings, MCB are manufactured as standard bricks that come in a wide variety of sizes. They are produced by unique axial pressing on oil presses, friction presses, hydraulic presses, mechanical presses, or isostatic presses.

Performance and cost conscious steel producers use several types of refractory bricks to line their furnaces and ladles. A variety of refractory products purchase is required due to the variation in wear and replacement rates for the different refractory products which vary significantly due to the types of steel being produced, individual furnaces used, and the various performance requirements of different areas of the steel furnace or ladle.

MCB is used only in the most demanding areas of the furnace or ladles which is principally along the slag lines, and at the top of the steelmills where active chemical processes are taking place, and impurities and waste tends to aggregate. Other less

costly products with higher wear rates will be used at the bottom and lower sides of the furnace or ladles where slag conditions are less aggressive and lower press refractory systems will wear out at lower rates, and provide performance that is "balanced".

Applying the facts of this case to the traditional multi-factors analysis the Commission uses to define the like products, we believe that the domestic-like product should be defined consistent with the scope set forth in the petition, which include only MCB.

Other refractory products, such as fired magnesite, fired bauxite, magnesia dolomite, and magnesia alumina graphite bricks, and the subject merchandise do not have the same physical characteristics and uses are not perceived by producers and purchasers as substitutable and are easily differentiated by price.

First, as you can see from the sample we brought, I believe it's too heavy to pass around, MCB are relatively smooth to the touch as they are bonded with resin and dark or black in color because they contain a relatively high percentage of carbon which is usually graphite, whereas fired magnesite bricks are tan in color and have a rougher surface. In

addition, dolomite bricks are gray in color similar to cement, and have a tendency to absorb water from the atmosphere.

Second, as we stated earlier and shown on the drawings we brought, MCB are at the top of the performance ranking for steel refractory products, and are used in the most demanding applications. For example, in ladles, given their low wear rate, they are used in the slag line and the lower skirt.

The first drawing on the left we brought shows a ladle linked with dolomite bricks in the barrel and bottom, but the slag line and the lower skirt are lined with MCB, so that the overall wear on the ladle is even and the ladle lining in total provides the lowest cost per ton of steel produced for refractories.

In the second drawing on the right the ladle is lined with an alumina magnesia graphite barrel and bottom. The slag line is MCB, and the lower skirt includes high alumina bricks.

Hence, a general conclusion to be drawn in analyzing the use of MCBs and the highest wear, most demanding furnace and ladle uses is the lack of substitutability for MCB by other refractory product. Fired magnesite bricks could not be used due to their

inability to withstand aggressive slag. Dolomite bricks have a much higher wear rate than MCB at the slag line, and alumina magnesia graphite bricks are impractical due to lower breakdown temperature and the chance of immediate performance failures.

Third, with respect to channels of distribution these refractory products are frequently sold as a package to end users because they tend to prefer placing their total requirements with one vendor. This practice actually magnifies the injury caused by these imports from China and Mexico as MCB exports are often supplied at low prices in order to swing an entire package to the Chinese or Mexican supplier.

Fourth, due to the important nature of producers and customers perceive the product as different. Producers display MCB separately in company brochures, on their websites, on pricing materials, and purchase orders and in technical guidelines.

With respect to the fifth criterion, fired bricks and dolomite bricks require different manufacturing processing and equipment than MCBs. For example, fired bricks require very high temperature count such as tunnel, shuttle or periodic count, and

because the dolomite family of brick is hygroscopic, and decomposes rapidly upon exposure to the atmosphere they must be immediately packaged, inventoried and shipped air tight in order to remain viable.

Last, MCB are easily differentiated from other refractory products by their higher price in addition to their superior performance. MCB costs about $500 more per ton that magnesia dolomite, $400 more per ton than AMG, and about $150 more per ton than burned magnesite bricks under normal market conditions, that is not dumped and subsidized as is the case now.

In summary, the domestic-like product in this investigation, MCB, is at the pinnacle of performance for refractory products used in steelmaking, and is therefore the most costly of these products in fair market conditions. As you can see from my summary, there is no legal or factual support for including any of these other products in a like definition, like-product definition of this case.

We conclude our testimony at this point. Thank you.

MR. ASCIENZO: Thank you very much for that presentation. Mr. Copp, sir, before I start the questioning, I don't doubt that that's a fairly heavy

brick there but how much does that weigh, approximately?

MR. COPP: Oh, probably about 22 pounds.

MR. ASCIENZO: Twenty-two pounds. Okay, so we're not going to send that around the table as Ms. Mazard said.

Thank you again, and I'm going to start this morning's questions with Ms. Haines, the investigator.

MS. HAINES: Hi. Elizabeth Haines, Office of Investigation. Thank you for coming and your testimony. I want to start with the unit value of the products. Looking at the questionnaire data that you had, I'm seeing a very broad range in the unit values and I'm trying to kind of get a feel for what you think. I mean, obviously we are still kind of scrubbing and going through the questionnaires, but what are the unit value ranges?

I know in the testimony it was said there was a wide variety of sizes made, but can you kind of walk me through just briefly what the ranges are for unit values and what the higher end ones and the lower end ones?

I mean, are they different -- well, I'll let you.

MR. BROWN: Yes, we make probably 3,000

different shapes MCBs.

MR. COPP: Okay.

MR. BROWN: Depending on the furnace that it's being used in. This particular shape is called the universal ladle brick, and actually has a male and female end, and lay it up in a circle. As we were looking at the responses to the questionnaires, we too were trying to develop a way to show price and what we finally did was take the price per shape and convert it into a price per ton so that you're looking at a comparison of a tonnage price rather than a 9-60 semi-universal brick, which you certainly would not have the background to understand what that meant.

If you look at the MCB brick, the various components are magnesia, dead burned or fused; graphite, purity levels of 90 percent to 99 percent; each one of those materials has a different cost to it; fused magnesite and various antioxidants which are metallic like additions that help either resist slag or oxidation of the graphite.

There is a range. Fused magnesite costs much more than sintered magnesite, so there is a range in pricing that can range anywhere from $800 a ton up to $1,400 or $1,500 a ton, especially for some of the enhanced products where we take a brick like this and

although for you it seems very dense and heavy, there is still what's called microporosity in that, and we can inject tar or pitch into that microporosity and even enhance the brick further, and for those bricks they may cost or be priced at $1.800 a ton.

It's a very wide range of pricing, and it's dependent on the raw materials used in a specific mix as well as the particular shape that we're using.

MS. HAINES: Okay.

MR. BROWN: Does that help?

MS. HAINES: Yes, thank you.

Well, for your different customers, I mean, you're saying like there is 3,000 different, how standardized do you feel some of the pieces are?

MR. BROWN: What we have seen is the trend to be very specific for any particular shop. Sometimes you can have two furnaces that are absolutely identical in every way sitting side by side, and they have very different personalities, and very different wear rates, and what we are trying to do as a refractory supplier is to help our customers get even wear throughout their furnace so that if they have a high wear rate in one area we use a higher quality MCB and perhaps enhance it, and use a lower quality MCB in another area.

I would say that for the most part these very specific shapes and mixes are about 50 percent of our business, and the other one is much more commodity.

For example, you take a steelmaker making 3 million tons a year, he may never vary in the size and quality of his ladle slag line brick because he's arrived at what is giving him very specific performance expectations.

MR. MAGRATH: Still, Ms. Haines, in spite of the 3,000 mixes, and I think Mr. Brown -- the 3,000 products, I think Mr. Brown also told me that he had several hundred mixes, formulas in his Hammond plant that he produces. All the suppliers bid to exact specifications from the different steel producers. So if they are going to be in the game, and, you know, the contract negotiations, you know, show multiple parties bidding, they are capable of making those exact bricks to those exact specifications that vary by producer, and as Mr. Brown says, even vary by furnace.

So the competition is there. It's not like unique products.

MS. HAINES: Okay.

MR. MAGRATH: The competition is there and I

think the questionnaires show that.

MS. HAINES: How long under the harsh conditions do they last? How often do they have to be replaced?

MR. BROWN: That's a good question. Some of the ladles get what's called heat, and one heat is when you make a batch in the steel furnace and tap it into the ladle. That's a heat of steel. So some ladles last 50 heats, others 70, others 120. It all depends on what the steelmaker is doing, what types of steel that he's making, and whether he has any post-steelmaking process once he taps the steel.

In a basic oxygen furnace steel shop, they will make a heat of steel every 40 minutes. So you have to have a ladle ready to handle that heat of steel every 40 minutes. So most steel shops have what's called a fleet of ladles. That could be from 12 to 16 ladles that are constantly on the run, some in service, some being relined, some being preheated. So the steelmaker is very focused on his lining performance of refractory.

If you have a failure in a steel ladle, you've seen picture of steel going everywhere, that's the last thing you ever want to have in a steel shop. It's very dangerous for the employees, and it's

dangerous to all the equipment in the steelshop also.

MS. HAINES: When they are replaced, what is done with them? Can you remelt them or are they just disposed of or what happens?

MR. BROWN: You're trying to -- you have the steel ladle lining and you're trying to wear it down to a thin lining, so you tear the lining out. At one time they just threw that away. Now some of the more progressive companies, like Resco, take those linings, those spent linkings from the steel customer, take off the altered face of the lining that's been in contact with steel, and conceptually if you think about it, what's left is still a refractory brick, and we grind that up and use it back into various products.

MS. HAINES: So to put this in -- go ahead.

MR. COPP: In this application this would be the thickness of the lining, the working lining for steel, so your liquid steel would be on this face, and this would be the cold face.

MS. HAINES: I see. Yes.

MR. COPP: And so this product would wear in this fashion.

MS. HAINES: During the course of use?

MR. COPP: Yes. So it would get down to say, you know, an inch and a half or two inches --

MS. HAINES: Okay.

MR. COPP: -- or where the steelmaker is comfortable from a safety aspect, as Bill said, to dump it out and clean it. So this actually disappears in the steel process over time, this section and this section is removed, and the relined, and this may last, you know, varying by shop practice, anywhere from four days to eight days to 12 days or 10 days.

MS. HAINES: Okay.

MR. COPP: So it's a very consumable product for the steel industry in the ladle application.

MS. HAINES: Okay. Since January of '06, have there been any technological advances in the industry?

MR. BROWN: No. It's a rather mature industry and there have not been any major breakthroughs in steel production and processing, and no major breakthrough in the refractory or MCB. Just when you think about it we've got a limited number of raw materials that we have to work with, and you know, no unique minerals are being created right now, so the refractory technologists is using what he has to his best ability. But we don't see any major breakthroughs in steel production in the near future and certainly not in refractory technology.

MS. HAINES: Mr. Magrath, I actually have a question about the HTS categories. As you were saying, there are basket categories so we will be using the importer questionnaire data, but you were talking about even comparing -- you know, looking at the questionnaire data. But looking even with 2010 or 1010 with our staff people, even that category the data looked -- there is, you know, wild broad changes in the values, and so if you could take a look at that and see if something had been posted incorrectly in the HTS. That's what we were beginning to suspect.

MR. MAGRATH: We can look at that and report back in the brief.

MS. HAINES: Okay, thanks.

MR. MAGRATH: We should say, Mr. Brown and the other Resco witnesses can elaborate on this, you know, you see under that 1010 number, which is the logical place for these to go, you see like -- I don't know -- 12 or 15 countries, including Canada, you know, a larger importer, but we can tick off -- these people are very knowledgeable about the global industry, and we can tick off the reasons why or the countries one by one and there are no other producers of MCB, or if they do produce MCB, it's a very small amount except in Canada. I mean, except in Mexico and

China.

MS. HAINES: What would be the countries that are making just a small amount? Was Brazil one of them?

MR. MAGRATH: I should say exporting to the -- you know, we're talking about the HTS numbers.

MS. HAINES: Yes.

MR. MAGRATH: So in other words exporting to the United States.

MS. HAINES: Okay.

MR. MAGRATH: Perhaps even making, but they could tell you much better.

MR. BROWN: There's a small amount of MCB made in India, and then in the mature European countries there are MCBs made in Austria, Germany, maybe some in France.

MS. HAINES: But are any of them exporting to the U.S. that you know of?

MR. BROWN: Not great quantities.

MS. HAINES: Okay.

MR. BROWN: They do export other types of brick that I understand fall into that category.

MS. HAINES: Okay.

MR. BROWN: But those are for applications outside the steel industry and not MCB.

MS. HAINES: But is Brazil exporting to the U.S. MCB?

MR. BROWN: Well, Brazil, Brazil is an interesting country. The dominant supplier there, Magnesita, has about 90 percent of all refractories, and they do have the capabilities of exporting MCBs, and they may be, but what we think the data shows is that they also manufacture magnesia spinell brick that's used in the cement industry in the heart of the burning zone, and we believe most of their numbers reflect the importation of those mag. spinell brick.

MS. HAINES: Okay.

MR. BROWN: And just interestingly enough as a side, when I was with Harbison & Walker, Magnesita was our licensee for the 25 years I was on the technical staff, so we know them extremely well and the products that they are making.

MS. HAINES: Thank you. You talked a little bit about the consolidation or what was happening in the industry with Harbison & Walker. Has there been any of that taking place since January '06, being sold or consolidated?

MR. BROWN: Well, Resco purchased a dolomite producer in March of '06.

MS. HAINES: Okay.

MR. BROWN: And we purchased a smaller monolithic company in '08. Major consolidation has really not occurred in the last few years.

MS. HAINES: Okay.

MR. BROWN: Our industry has four or five very large players, Minteq, Vesuvius, ANH, LWB, and Resco, and I think consolidation might take place in the future, but not since '06.

MS. HAINES: Okay. Do you maintain inventories at all?

MR. BROWN: Yes. Unfortunately, we do.

MS. HAINES: But in the past have you maintained inventory? Is it pretty much made to order?

MR. BROWN: Well, our Hammond plant is very efficient and from the time we make a brick until it's available to ship can be two or three days, so we've been able to get by with lower inventories with MCBs than with a product that has a longer manufacturing cycle or if we were supplying from offshore.

I think Hammond inventory is probably in the range of 30 days of inventory.

MS. HAINES: Okay.

MR. BROWN: About half of our shipments come out of stock and about half of them are made to order.

MS. HAINES: Okay. I think that's all I have. Thank you very, very much. It was very, very helpful. Thank you.

MR. ASCIENZO: Thank you very much and we turn to Michael Haldenstein, the attorney/advisor.

MR. HALDENSTEIN: Thank you.

I had a question about your production of other products that you mentioned, whether MCB was the major product that you produce and whether you switch around very easily from product to product.

MR. BROWN: As I said in my comments, Resco has 12 operating plants and two mining operations, and the MCB production is less than -- I'll give you quick figures -- less than 10 percent of our total production.

MCBs generally require presses which have high tonnages in order to compact -- you know, if you look at the brick, what we're trying to do is particle pack in a way so that we get it as dense as we possibly can, and in order to do that it takes special presses, and certainly Hammond has those capabilities.

But for Resco overall MCBs under today's conditions are less than 10 percent of our total volume.

MR. HALDENSTEIN: And most of the layoffs

were related to the production of MCB?

MR. BROWN: There have been layoffs at other plants also. We supply some products to the housing industry and as you know the housing industry started -- new home starts started going down well before '06. So that particular plant we had layoffs. We have layoffs -- MCBs are only one of the products that go into the steel industry, and we've had layoffs at plants that make those other products, but for those plants in the other products pricing has held up very well during this downturn and we haven't experienced this sudden surge of imports for those other products and at lower prices.

MR. MAGRATH: We should say that we have provided in our questionnaire very detailed accounting of the impact of the compensation cutbacks, the personnel cutbacks, other cost savings specific to MCB, and Resco can do that, you might ask for more detail here from the Resco people, but Resco can do that because their MCB production is all in one plant, Hammond, Indiana.

MR. HALDENSTEIN: Right.

MR. MAGRATH: And the MCB accounts for -- what is it -- like above 80 percent -- don't say anything confidential -- in that plant, so it's

practically dedicated to the manufacturing of MCB.

MR. BROWN: Again, we're hoping that provided the investigation moves forward we will be able to host some of you at our Hammond plant and see what a brick plant is like. It's kind of interesting really.

MR. HALDENSTEIN: You mentioned the contracts are done across multiple products. Is the pricing based off of MCB or how is that negotiated?

MR. BROWN: I'm going to let Rick take a --

MR. HALDENSTEIN: I think you mentioned thai there are multiple products that are in a package that is sold to a steelmaker. How is the pricing, how is that structured? On a per product basis or the package as a whole, and how do you separate out the price of the MCB?

MR. COPP: Typically the customer will determine how they want you to quote, but you're quoting on a specific product and a specific brand by piece. Was that your question?

MR. HALDENSTEIN: Yes. So it's not just for a bunch of different products, it's for MCB specifically as well as other products, so there are prices for each product within the package?

MR. COPP: That's correct. We typically

quote a lining, as the diagram would show, you know. Because Resco can supply most everything in the application, we are quoting dolomite products and working lining products, and backup lining products, a wide variety of products other than MCB.

MR. HALDENSTEIN: Do you have standing orders with certain steelmakers that you will supply these bricks on a regular basis?

MR. COPP: That's our goal to have outstanding orders with customers, and recently, in the last several months because of raw material issues, standing orders, long-term standing orders have shrunk, so but because refractory is a consumable product and because lead times can be an issue, typically when you work with a customer you will have assumed are standing orders because you have a backlog of material there to ship in.

So the answer to your question is our goal is to have long-term standing orders, and we do, but recently, in the last six to eight months, that process has been shrunk down from say a year contract to six months.

MR. HALDENSTEIN: I heard that maybe there is some importing going on, is that more for the commodity product that you would purchase?

MR. BROWN: Yes. Although we fought a good fight, and tried to resist the importation of Chinese brick, where we've had some customers who don't differentiate on any factor other than price, and Resco has already lost the business to Chinese importers, we have imported Chinese brick to try to maintain that business. But even in those circumstances, which I have to tell you are limited, we find it very difficult to compete with other Chinese importers. It seems to us that the only factor is price and our customers say if your price is a dime and I can get it for nine cents, I'll do it, and if I can get it for eight cents, I'll do it, and the price has just been driven down, especially since September of last year. But our Chinese imports are somewhat limited.

MR. HALDENSTEIN: In the postconference brief can you be sure to address whether appropriate circumstances exist to exclude any related parties?

MR. BROWN: Okay.

MR. HALDENSTEIN: Your lawyer will take care of that.

Also, another legal issue, accumulation, could you be sure to address accumulation for purposes of threat, and why there are appropriate circumstances

that exist to accumulate because I think I heard that there were maybe some differences between the way the imports from Mexico and China were competing? I think I heard that imports from Mexico were competing more aggressively, so if you could address that in your postconference brief?

MS, MAZARD: We can address that in the postconference brief.

MR. HALDENSTEIN: Also, another legal issue with respect to the nonsubject imports, how much capacity for production of this product actually exists in nonsubject countries, and if you could estimate that, and whether, you know, that capacity or production could have replaced the subject imports during the period, I'd appreciate that?

MS. MAZARD: We will gladly address that.

MR. HALDENSTEIN: Those are all the questions I have. Thank you.

MR. ASCIENZO: Thank you very much. We turn to Mr. Fetzer, the economist.

MR. FETZER: Thank you, and I would particularly like to thank the folks who traveled here from afar. We appreciate you coming, and I think it was mentioned earlier, I think by Mr. Copp, that we know a lot about the steel industry, but not much

about this industry so hopefully we can learn some stuff today. I've already learned a good bit, so thanks for the presentation and the diagrams. That helps a lot.

One thing I just want to clarify, Mr. Brown, in response to Mr. Haldenstein's question, I think you said, and maybe I mishead you, that some customers only depend on price or did you mean all or there are some that let's say only, you know, care about quality?

MR. BROWN: Yes, that's a very good question especially addressed to what we consider to be a value seller rather than a price seller.

In the steel industry, as you know under the pressures they are under, pricing has become much more important in August of 2009 versus even July of 2008. Pricing decisions now seem to be driven up towards the purchasing departments or higher, so that there is less pricing that's done at the lower level, say the mill shop superintendent or the general foreman.

We're trying to differentiate our products by providing them augmented services just beyond supplying a refractory product, and that's the value we bring by being in with the customer every day in his shop, understanding what his goals and

expectations are, and they can change from day to day. They can change overnight. But in the current environment price is becoming more and more the only differentiating factor.

There are still some customers out there where price is not the deciding factor. These customers tend to have longer visions, for example, they want a domestic MCB industry because at some point in the future if things keep going the way they are right now we'll be gone. We won't be around because we won't be able to meet Chinese pricing, but they will support the domestic producers. Those kinds of customers are becoming increasingly rare, unfortunately, because the steel industry is under terrible pressure right now.

MR. FETZER: Can you estimate about what share of the market they are presently, or maybe even what they were at the beginning of the POI, which I believed was what, 2006?

MR. BROWN: Let me answer by this. The value buyers are probably less than 30 percent and the price buyers are more like 70 percent, and it's headed the wrong way for us as what we call a value supplier, with the only differentiation, price, it's very difficult for the domestic MCB producers to respond to

that.

MR. FETZER: You mentioned earlier that different furnaces have different personalities.

MR. BROWN: Yes.

MR. FETZER: And so I'm wondering if these purchasers are just sort of royal to the domestic industry or do they have different needs. Maybe they need some type of quality or service that you provide versus other steel companies that may not need that as much. Is there a differentiation there or is it more just --

MR. BROWN: Absolutely. Absolutely. We get to know the furnaces like they were our sisters. We know their various moods. We know which furnaces will wear at higher rates than other furnaces. We work hand in glove with the steelmaker.

For example, we'll be in some shops and tell him when he needs to take his ladles out of service because they are wearing at a high rate. There are customers that appreciate that kind of service. There are other customers that, quite frankly, put no value on it at all, or they want it provided free of charge and get the lowest price.

MR. FETZER: But is it like long-term relationships you've built or is that something you

build up over a short period of time?

MR. BROWN: No, it's long-term relationships as is set up in the industry a number of years. Many of the guys that came up through the ranks with me are now presidents of steel companies, and those relationships have continued. We work on it every day, and we like to think that we're not just here, at least Resco is not just here for today, but we were here three years ago and we're going to be here 10 years from now.

MR. FETZER: How involved in your services? Do you work on site with the steel producers?

MR. BROWN: Yes, we have some locations, for example, where we have round-the-clock crews of men, even some where we have a laser. The ladle comes off the furnace, lays on its side, we shoot a laser to a thousand different points in that ladle in a matter of five minutes, then we can tell the steelmaker exactly where the highest wear area is, and provide him guidance as to when he should reline that ladle.

To take it a further step, you can shoot the ladle and tap into the steelmaker's computer. As these ladles wear you can actually put more molten steel in there. So instead of tapping a 250-ton heat, he is able to tap a 280-ton heat because the lining is

thinner. That kind of value to the steelmaker -- just think about that -- he with no more cost and capital, with no more cost in personnel you have been able to increase his steel production because he can tap a bigger heat, and there are people out there that still appreciate that.

MR. FETZER: I mean, I'm sure you feel your service is great, but how do other competitors, whether domestic and the importers, do they provide similar types of service, or are they newer to the marketplace?

MR. BROWN: No, it's really a wide range of -- not to offend any importers that might be present, but we have some guys selling imported MCB brick that were the meltshop's superintendent. They have now retired, and I phrase it they are selling the brick out of the trunk of their cars. You know, they are just selling to their old buddies, and occasionally helping them with technical issues.

On the other hand, there are some importers that are providing technical services and even providing value to the customer. So it varies.

MR. MAGRATH: Mr. Fetzer, the questionnaires that I've looked at so far, a couple of the importers tell their technical expertise and technical service,

but the great majority when asked on the questionnaire, you know, leave that blank or say nothing.

The largest, self-described largest importer who is here today in the room I think only has a couple of -- three employees or six employees total, three people in the organization that actually sell. Now those people had careers in the steel industry or in the refractory industry, but you know, it's a very small organization, and they are a large importer. You might ask them this afternoon about that.

MR. FETZER: Well, certainly. I definitely would like to follow up on that.

Has the service changed over time? I mean, is it pretty much the same kind of -- do your customers expect the same type of service today or are they trying to maybe get more out of the furnace?

MR. BROWN: It almost depends on where you are in the steelmaking cycle. When times are good, I think the customers are willing to pay more for service than they are when times are bad like they are right now. In away when you are supplying ladle linings and furnace linings, it's like a dog chasing his tail, and by that I mean you get the steelmaker 50 heats of steel, and he has a wear area, and you go in

and you upgrade that wear area and get him 55, and then he finds another wear area that he needs to replace, and you upgrade that and get him 60 heats, and then he has another wear area that he replaces, and in order to do that you do have to have competent technical support, and people that not only understand the steelmaking process and its effect on refractories and MCBs, but also on MCB technology to understand what your options are as you try to select a product to help him increase his ladle lining life which ultimately should reduce his cost per ton of steel of refractories.

MR. FETZER: So that's where the formulations come in, I guess the different --

MR. BROWN: Yes. As I described to you, we use various graphites, various magnesites, various fuse magnesites, various antioxidants. John Castilano, his background is manufacturing, he has got 150 mixes at Hammond, and I calculated one day that you could have something like seven million different combinations of those raw materials. And I asked John why was he complaining, we only had 150 mixes, not seven million. So, yes, that's where the mixes come in.

MR. FETZER: Oh, sorry. Mr. Copp?

MR. COPP: That's okay. I was going to say, you sometimes see the customers, because we have a diversity of mixes and large experience, where we've helped the customer chase his tail and fine tune his process, and the customer is very happy, and then they get into a process, "Well, let's look at reducing the price." We've had multiple opportunities where we lose the business on price until there is another problem when they call us in, and then we chase our tail and fix the problem.

So you do have the opportunity where somebody lacks the expertise but really doesn't want to pay for the expertise, and price becomes a big factor, and that cycles as issues happen.

MR. FETZER: I appreciate that. It must be difficult when you have that level of expertise, and all of these things are mixed together.

I did want to ask you a question, Mr. Copp. You were talking about the magnesia being exported from China at high prices, and this might be confidential. If it is, you can follow up in the post-conference brief, but I'm wondering how you guys get your magnesia. I was looking through the questionnaires, and there was some mention of, oh, every magnesia mine has different qualities, and

different companies are using different magnesia mines, and I don't know if, through formulations, you can get to all of the different combinations that are there, but I don't know exactly where you source your magnesia from, and maybe it's different than what the Chinese and Mexicans have access to, or if you're importing it from China. So to the extent you can comment on that publicly and follow up in the post-conference.

MS. MAZARD: We'll address that in our post-conference brief.

MR. FETZER: Post-conference? Okay.

One of the things in the questionnaires, we asked a question about the cost share of MCB and the end products, and there was a wide range of answers, ranging from about two percent to 100 percent, so I would like to try to narrow that down.

I think my reading of it is that some people viewed the question as the cost share in the final steel product, and those tended to be the lower numbers, maybe around two percent of the 10 percent, and then there was a group that was around 30 to 40 percent, and there were ones as high as 100. I think the higher numbers, people were taking it as a share maybe of the furnace costs.

So I would just like to put that in perspective, in terms of what would be the cost share, let's say, you know, of the furnace and also of the end steel product?

MR. BROWN: When we filled out our questionnaire, we based it on the cost of MCB versus the cost of a ton of steel produced, and we were one of the ones that answered two percent.

Maybe let's talk about the cost of refractories for steel making, to put it in perspective. Based on one of the MAC reports from the Census Bureau, if you look at the amount of refractories in the United States, say, $2.2 billion sold and 100 million tons of steel production, and roughly refractories in steel accounts for roughly 50 percent of the total refractory market in the United States.

Do a quick-and-dirty calculation. That says refractories account for $10 a ton for every ton of steel made, so if you have 100 million tons of steel made, your refractory consumption is going to be, in the steel industry, is going to be about a billion dollars.

That's been a fairly constant number, $10 a ton, and, of that, we believe MCBs account for less

than 10 percent of that.

MR. FETZER: Okay. Mr. Magrath?

MR. MAGRATH: Tiny.

MR. FETZER: I just wanted to put that in perspective.

Going back to substitutes, Mr. Magrath, I think you indicated in the questionnaires your position is there are not substitutes.

Looking at the questionnaires, about two-thirds of the Respondents said there were not substitutes, and the other third said there were, and they named things like the usual suspects, like dolomite brick, castibule, magnesia bricks, and, given Ms. Mazard's testimony on the like product, I'm just trying to square that away, and what I'm thinking is maybe there are some exceptions that maybe sometimes -- I know you generally said MCB is used at the top, and these other things might be used near the bottom.

Are there different applications where there might be exceptions to that? When we're asking for there are substitutes, I think people might be thinking, are there exceptions to the rule?

I'm not trying to make a like-product argument here but just get a sense of, are there any instances where there might be substitutes, in

practical purposes, let's say?

MR. BROWN: Again, that's a very good question. I'm going to give you -- we struggled with this, quite frankly -- an analogy, and I don't know if this applies or not, but you have a 100-ton truck -- right? -- and you can put 100 tons of product in that truck. You can also substitute five 20-ton trucks for that same thing, and then you can also substitute 500 wheelbarrows for that, and then you can substitute 10,000 people with shovels for that.

Is there a substitute for MCB? Absolutely, I can put a fired-clay brick in that slag line, and halfway through the heat of steel, the steel will come out the sidewalls because it will eat that brick up. Can I even get one heat with the substitute? Maybe. Could I cast the slag line with a monolithic material? Yes, but the performance will not, in any way, approach the performance of MCBs.

So is there substitutability? Conceptually, yes. Will it give the performance, the cost effectiveness, the safety, the reliability, the consistency of MCB? Absolutely not. We've proved that over the last 30 years. When MCBs came into the steel-making industry in the mid-1970's, they were somewhat revolutionary in their composition and their

performance, and that has not changed.

MR. FETZER: I appreciate that. Thanks.

Demand. Most of the questionnaires indicated, I think, something similar to what you did, that demand either decreased or fluctuated, and a lot of people referred to steel production. What I'm wondering is, is there some kind of data series that we should be focusing on when we're looking at demand? "Steel production" can mean a lot of different things. Particularly, what do you look at when you're looking at demand forecasts?

Is there some publicly available data out there that we could look or that you guys could provide in your brief that the Commission could get a sense, whether it's annual, monthly, or whatever, what have been the trends in steel production over time that would affect demand for MCB?

MS. MAZARD: We can address it further in our post-conference brief, but, basically, what Resco does is they analyze each steel mill, and they have, over the years, come up with a number of linings.

(Off the record at 11:20 a.m. due to alarm.)

MR. ASCIENZO: Thank you very much for your cooperation, and, with that, we return to Mr. Fetzer.

MR. FETZER: I don't know if that was a

sign.

I think we were talking about demand steel production. Right?

MS. MAZARD: I'll keep my remarks less heated this time, but basically the demand -- it's pure and simple -- it's just based on the demand for steel. We included in our petition how we came up with that formula; it's proprietary. We have a steel-by-steel analysis that we do for each application, and it comes out to that figure and explains how we come up to that ratio for the demand.

MR. MAGRATH: Yes, and, Mr. Fetzer, there is no, that we know of, public document or economic study that gives demand, year by year, for MCB shipments, imports, consumption, the United States or worldwide. There are no public documents that exist.

MR. FETZER: Okay. That's good. Yes, whatever information you can give would be great, and to the extent there is anything public, we can say more than just steel production. Maybe if it's types of steel or the iron or raw materials, when we're describing it, to give a sense of what kind of steel we're talking about, even if it's not an exact description. Given all of the steel cases we've had and the exact detail we've gone into in different

ones, it seems like a broad --

MR. MAGRATH: Sure. Of course, the Resco guys can elaborate on this, but you've heard that MCB is present in EAF furnaces and ladles; that is, basically, the minimill industry, the industry that produces specialty steels, the produces carbon steel on a scrap-iron-based system. They would use EAFs, so they use a lot of these MCBs, and BOF, to a minor extent, also uses MCBs. BOF would be the large, integrated steel mills that make steel from pig iron and other basic raw materials. So it goes across the board.

Bill, you may have some details in terms of some of the more exotic aerospace steels, or, if they are included, high-nickel alloys, that kind of thing.

MR. BROWN: We have a shop-by-shop analysis, and we can pull out the integrated producers, separate arc furnace producers, look at the specialty steel producers. Obviously, stainless steel is in a category by itself. High-quality bearing steels, like we see made at Timken, are in another category. The type of steel produced does have an impact over the amount of MCBs used. So we'll give you a better analysis of that in the post-conference brief.

MR. FETZER: Okay. I appreciate that.

Thanks.

Sort of following up on the raw material question I had earlier, I know you're going to keep giving a response on exactly the materials, but there was a reference this morning by Ms. Levinson about raw material costs going up, and if there is anything you can say to that publicly, again, follow up in the post-conference; or if there is any data series we should be looking at that would be good estimates of what your raw material costs might be for, I guess, magnesia, I assume, would be what we would be looking at, or if there's any other raw materials we should be focusing on, too.

MR. MAGRATH: Of course, the questionnaire responses provide you with raw material costs broken out by each period for each producer. Magnesia isn't broken out as a specific raw material, but perhaps we could provide that in the post-hearing brief, magnesia costs over the period of investigation. They have risen quite considerably in 2008.

MR. BROWN: Yes. What we can do is take a magazine publication. One is called Industrial Minerals, and they track raw material costs, and we'll give you their published prices, say, from 2005 until the present period. What you're going to see is

magnesite raw materials going up three to 400 percent during this timeframe, but we'll get the exact numbers for you.

MR. FETZER: Okay. I appreciate that. Public is good. We can be more transparent in terms of raw material costs, although I realize it may not correspond 100 percent to what your raw material cost changes are, but just to get a sense of what's going on in the marketplace.

MR. BROWN: Sure. We can provide that.

MR. FETZER: And also, and, again, this might be confidential, and respond post-conference, if so, you've had to, you know, employ raw material surcharges over time or any types of surcharges, if that's played a role in your dealings with your customers, I would appreciate that.

MR. BROWN: Yes. We'll include that.

MR. FETZER: Okay. I guess this is more for post-conference, but when we ask for price data, we typically have a little box at the bottom that says, "If you have a product that's similar, please provide the data and explain what the product is," and it seems, in this case, we've gotten a lot of responses along those lines. I'm addressing this also to the Respondents, if I forget to say anything later. If

you could just take a look at those products, and if you feel any definitely should not be included or should be included, I would appreciate any comments along those lines.

MR. MAGRATH: Excuse me, Mr. Fetzer. Those are on specific questionnaire responses. I don't know to what extent we can have Resco look at these.

MR. FETZER: I just meant counsel. I was addressing counsel.

MR. MAGRATH: Okay.

MR. FETZER: I'm looking at the descriptions, and they may say, "Well, it's the same thing, except there is a small difference."

MS. MAZARD: We can address those, and I think, overall, we sort of have a good understanding of why certain domestic producers picked things that were similar to our three pricing products, as well as why some foreign producers and importers picked things that were similar.

MR. FETZER: I mean, in some sense, I'm kind of glad they did it rather than just say, "We don't make that," and not give us data. At least we have the data to work with, but just to get a sense. You know, if they are willing to go through the effort of doing that, I would think it should be similar, but

maybe there is stuff that isn't, and maybe there's issues there, but just to have that addressed in the briefs, I think, is important.

MS. MAZARD: We'll address that, and also, I think, what Mr. Brown mentioned before about price per ton also being the most important factor here.

MR. FETZER: Thanks. Just one question. The issue of hot spots came up at some point. What are hot spots in a furnace, and what's the importance in terms of MCB? Is it a place where you might need to use a higher quality or a different formulation?

MR. BROWN: Yes. "Hot spots" are a high-wear area. For example, I described to you a steel-processing ladle. In some of the furnaces, the furnaces are actually used just to melt the steel, and any post-treatment is done in a steel-processing ladle.

They are typically known as "ladle metallurgy furnaces," and in those furnaces they actually have electrodes that can be used to reheat the steel, and sometimes the electrode will throw a severe arc against the sidewall and rapidly deteriorate a section of the steel slag line, and those are known as "high-wear areas" or, in steel mill talk, "hot spots," and the reason it's a hot spot is,

from the outside of the ladle, you can see it glowing red, and the reason it's glowing red is because the lining is very thin, and, therefore, it's called a "hot spot" or "high-wear area." Generally, when you have those, you have to try to upgrade the MCB in that area to contend with the arcing of the furnace.

MR. FETZER: Okay. Those are all the questions I have for now. I, again, appreciate your detailed answers and look forward to taking a look at your responses in the post-conference brief. Thanks.

MR. ASCIENZO: Thank you very much, and we turn to Mr. Yost, the auditor.

MR. YOST: Thank you very much, and thank you all for coming here. I know some of you have traveled a long distance.

I'm tempted to quote one of our commissioners back in the 1990's, at the end of a large steel investigation, who said he had never realized that not all steel is steel. Well, I would say the same thing about bricks. I used to think that all bricks are brick. I think, now I've learned differently, with the 150 different formulations and so forth.

A question: Going back to Mr. Fetzer's discussion or his questions regarding some of the

value buyers versus the price buyers, do they tend to use MCBs in the same place, these two groups that you distinguished?

MR. BROWN: Yes. They are using MCB in the same applications; different furnaces or ladles, but it's the same application.

MR. YOST: The price buyers don't tend to try to cheapen the area around the slag line by, say, using a different type of brick, aluminum magnesite or aluminum chrome-magnesite-type brick?

MR. BROWN: Well, that would result in production issues for them. Whenever you have a furnace that you're having to reline because of short lining life, that furnace is out of production, and, therefore, that's costing the steel-producing shop profitability. That's number one.

Number two: If you look at furnace linings, refractories is one of two elements going into the total cost of a furnace lining. The second element is the labor. For example, if you can line 100 linings a year, that will reduce your labor costs versus 200 linings a year because you're lining half the time, and, therefore, the substitutes that might work for some short period of time generally don't become the most cost-effective product for furnaces.

MR. YOST: Okay. Thank you. A question for Mr. Brown, please.

You had mentioned earlier, in your direct testimony, that Resco purchases or takes back spent linings, grinds them, and reuses them in the production of new MCBs. In the post-conference, would you please specify what the effect has been on your raw material costs of doing that, and what period you started doing that, please?

MR. BROWN: Yes. Absolutely, we'll include all of that detail for you.

MR. YOST: A question on imports: How long have imports from China of MCB been present in the U.S. market?

MR. BROWN: It's interesting. The Chinese, for a little background, started importing raw materials into the United States in the late seventies and early eighties. China is blessed with enormous reserves of refractory minerals, like bauxite and magnesite. So they started importing the raw materials in the late seventies, early eighties, and then they started converting those raw materials to finished products probably in the early nineties and tried to make some inroads at that point in time, but the real, as far as I'm concerned, the real change

came -- if you remember, the steel industry was doing rather well in the late nineties, and then we hit on very difficult times right at the beginning of 2000: 36 steel industry bankruptcies, consolidation, rationalization. Steel employment went from 200,000 to 100,000, just terrible times. The steel industry was under a lot of pressure and began to purchase more and more Chinese imports, MCBs.

MR. YOST: And as you say, this started around the year 2000.

MR. BROWN: With the decline of the steel industry, yes.

MR. YOST: Okay. Looking over the questionnaire responses of the U.S. producers carefully, I can generalize -- I can't, of course, discuss numbers, but what seems to have happened was sales and sales value increased fairly nicely between 2006 and 2007 and then came down in 2008 to roughly, in terms of quantity, what the level was in 2006, but because of higher unit prices of sales, the value was still well above that in 2006.

What happened in '06 to '07? Is that purely steel industry demand, the big upturn in steel production in this country and, consequently, relining of EAFs and ladles?

MR. BROWN: Steel production did pick up marginally from '06 to '07. Those were very robust years.

As far as pricing is concerned, for us, we were trying to recapture some of the significant raw material price increases we had gotten from China during that time period and were partially successful. At the same time, the Chinese imports had the opposite effect on price as they were beginning to take more and more of our share, but '06 and '07 and for the first nine months of '08, steel production was pretty good.

MR. YOST: I'm seeing mostly any price increases for sales coming about between '07 and '08. Does that roughly accord with your experience? Price increases were somewhat modest between '06 and '07, but things started to fall apart between '07 and '08.

MR. BROWN: That's correct. The Chinese started on the magnesia mainly. The raw material prices accelerated during the period of '07 and '08 dramatically. We'll be able to provide that in the post-conference documents. We'll give very specific information to you.

MR. YOST: I look forward to reading that. Thank you.

And then the operating income turns into a loss in '09. Is that purely steel industry related, although I think you've said in other testimony, and Mr. Magrath has certainly said in other testimony, that the lost sales started to pick up at that point?

MR. BROWN: We lost sales, and we lost revenues due to what we see as the high import levels of Chinese and Mexican MCBs. While certainly we all recognize the steel industry is going through some challenging and difficult times now, we lost a disproportionate share of the market due to the imports during this time period.

MR. YOST: Okay. Thank you very much. That concludes my questions.

MR. ASCIENZO: Thank you very much. Mr. DeSapio, industry analyst?

MR. DeSAPIO: You mentioned that small amounts of MCB were coming from India, Austria, Germany, and France, and I wonder if you could provide names in the post-hearing brief of significant producers and suppliers in those countries.

MS. MAZARD: We can provide those for you.

MR. DeSAPIO: Thank you. That's all.

MR. ASCIENZO: Ms. Koscielski?

MS. KOSCIELSKI: Thank you. Mine was more

of a clarification question. It's my understanding the ladles are made up of a different type of brick, with MCB at certain points of it. Right? Just to clarify, when the companies then order the brick, they order the entire package of the lining so they order all of the different types of brick that lines it.

MR. BROWN: The customers can order the entire package, or they may order only a portion of it, and it varies from steel customer to steel customer.

MS. KOSCIELSKI: Okay. So it then depends on the company. Is it more common, then, to order it individually, or is it more common to order it as a package?

MR. BROWN: I'll ask Mr. Copp to answer that question.

MR. ASCIENZO: Microphone.

MR. COPP: It really is dependent on the shop practice and what the operators want to use, but I would probably say it's about a 50/50 split. Sometimes we get the entire package, and sometimes we just get specific portions.

MS. KOSCIELSKI: The 50/50; is that, then, in reference to Resco, or, overall, that's your estimate of how the companies provide --

MR. COPP: I would probably say in the general marketplace for refractory suppliers.

MS. KOSCIELSKI: Okay.

MS. MAZARD: And I can comment, too, to the other domestic producer, I would imagine, for which we have information that's similar. It's similar for the other domestic producer that gave us information for this.

MS. KOSCIELSKI: Those are actually all of the questions I had. Thank you.

MR. ASCIENZO: Thank you very much. We turn to Mr. McClure, the supervisor.

MR. McCLURE: You will all be thankful that my colleagues have taken care of most of my questions, as your stomachs growl.

One thing, Mr. Copp. You mentioned MCBs as being a wedge product that sort of leads the train, and that would be for the firms that are more inclined to buy the total package, or does that sometimes, if they can't get what they want in MCBs, they split things up and go different ways?

MR. COPP: A lot of times, steel-makers, if they have a fleet of 16 ladles, they will divide up those ladles so that one company has the entire ladle lining. If there's any performance issues, you don't

get a lot of finger pointing between suppliers, with the end customer saying, "Well, my product performs, and his didn't."

So, typically, the supplier will want to try to make that ladle one-supplier based, if they can, but that doesn't hold true, as I said, for 50/50. Other shops, they will do multiple things within ladles.

MR. McCLURE: The 50/50 number; have those proportions changed, in particular, let's say, since 2006?

MR. COPP: I would say the trend in the last nine months has been for shorter packages. I would say, no, the proportion probably has not changed.

MR. McCLURE: Okay. Now, let's see. You folks produce not MCBs; you produce MCBs at the Hammond plant. In the other, I believe, 11 plants, you produce the balance of the various refractory products. Is that the case?

MR. COPP: That's correct. We only produce MCB at the Hammond, Indiana, location.

MR. McCLURE: Okay.

MR. COPP: We produce other products. Typically, although we have the capabilities to make different products at Hammond, we like to segregate

the product mix, from a chemistry standpoint, for purity and handling, to different plant applications.

MR. McCLURE: Do you face import competition in the other refractory products, or is MCB the most likely?

MR. COPP: We see import competition on other refractory products, yes.

MR. McCLURE: Is that a recent phenomenon or along the same timelines?

MR. COPP: As Bill talked about, from Magnesita in Brazil, we see imports in the cement application or cement market and have for the last probably 12 years. We also see it in other applications. Primarily, for us and what we produce, mag carbon is the largest import competitor.

MR. BROWN: If I could make a comment on that, if you think of transportation costs from outside the U.S., transportation cost on the selling price of an MCB is a lower percentage than it is on some of the other lower-priced products that we provide into the ladle furnace, the lower-quality products.

So where transportation from China may be 15 or 20 percent of the delivered cost of an MCB, transportation costs could be 50 percent of some of

the lower-cost or priced products, lower refractory grades. So we really don't see a major effort by Chinese, Mexican, or other producers to export those products to this country.

MR. McCLURE: Thank you. My colleagues have already covered this, Dr. Magrath, but, again, on the amount of capacities in nonsubject countries, and in your testimony you did mention that the United States happens to be the world leader in recovery, that there is all this potential out there. Over the years, have those other countries ever been a significant player in the U.S. market, and you can go back as far as you want to?

MR. BROWN: Do you mean in MCBs?

MR. McCLURE: Yes.

MR. BROWN: The major production center and capabilities for MCBs are located in China, and I can't even count the number of potential plants in China that can produce MCBs, and some of those facilities also make alumina magnesia graphite, and that production can be turned swiftly into MCB production.

The European capacity is more fixed and finite, and, in our post-conference documents, we'll try to give you a handle on that.

MR. MAGRATH: One fact we have not emphasized so far is that the capacity and the shipments and sales of the European producers, and basically RHI is the biggest one, are going to stay in Europe for a while because there is a dumping order on Chinese MCBs in the EU and in Turkey, which is limiting imports into those markets. So the United States is, let's say, an additional threat factor that we mention in the petition.

MR. McCLURE: Okay. Anything we can get that gives us a comfort zone with respect to what's -- admittedly, as Ms. Haines said, we're dealing with a basket category in the official statistics and in 1010, just to give a sense, because we will be asked, what are those products that we see, say, in 1010, from Germany, from Canada? Just spell it out to the best of your ability and the best of your knowledge base and your experience in the overall product line. It just helps us. It's an issue, like it or not, that we have to address.

MR. BROWN: Could I just make another comment on that? If you can think about it conceptually, the producers in Europe have a tariff on Chinese mag carbon brick. Right? So they call sell in Europe at price X. Coming to the United States,

where we're faced with Chinese and Mexican imports, they would have to sell at a lower price to gain market share, and you don't see a lot of effort by the European producers to sell into these markets in the U.S. which have been decimated by the cheap imports from China and Mexico.

Just for the record, Resco was chosen as the surrogate company and country that the EU based their auditing on for finding the dumping tariff in their cases in '05 and their review in '07-'08.

MR. McCLURE: Thank you. That finishes the questions I have. I want to thank the panel, and sorry for the little extra added bit of exercise and hearing tests that we got, but this is a "new industry" for us, so your testimony has been very instructive. We usually see most of the familiar faces in the room on steel cases, but it's nice to have them in the room and be discussing something else. Thank you.

MR. ASCIENZO: Thank you very much, and good afternoon.

Mr. Brown, could we go back to a comment you just made about the European producers? I think this has probably been covered, but I just want to make sure. Pretty much around the world, can any producer

make MCBs for any ladle? Is pretty much the technology well known and well developed?

MR. BROWN: There was a lot of mystery about the technology in the seventies and in the early eighties, but the technology is generally well known. You have to have certain basic equipment in order to do it, and that equipment is very expensive -- hydraulic presses, friction presses -- and the capability to compact all of these raw materials, and you also have to have access to the right raw materials.

Generally speaking, if you have the pressing equipment, and you have access to the raw materials, you can produce MCBs.

MR. ASCIENZO: Thank you for that. Has your company ever been unable to produce any certain chemistry or size of MCB, or, despite whatever the characteristics are, you've always been able to produce?

MR. BROWN: Yes. The Hammond, Indiana, plant has been in the MCB market since the mid-seventies, and, over the years, we've developed many, many mixes, and we've developed many, many molds required to compress the brick. So I can't think of an instance when we have not been able to make a

specific MCB mix or shape.

MR. ASCIENZO: Thank you. Is there a standard size? Are they bigger than this, thicker than this, or is this pretty much it?

MR. BROWN: No. Unfortunately, not. It would be easy for the domestic producers if we did have one size. As I said earlier, that's a semi-universal ladle brick, and while you have it standing up on its side, the working line and thickness looks to me to be seven to nine inches. We have them that go from three to 10 inches.

Now, that's for ladles, but some ladles require what's known as a "key" rather than a semi-universal. Other ladles might use even arches, wedges in multiple different sizes. So, unfortunately, we have a wide variety of shapes and sizes used in the industry. Most of these shapes and sizes, though, are well known throughout the world. A Chinese producer or a Mexican producer would be able to look at that brick and immediately identify the shape as a semi-universal ladle brick shape.

MR. ASCIENZO: Thank you. I just want to make sure. I think there was previous discussion that heat occurs every 40 minutes, give or take, and these bricks might last somewhere between 50 and 120 bricks,

so I just want to make sure, if I did the math, it sounds like a ladle has to be relined every, give or take, day to three or four days. Is that correct?

MR. BROWN: It depends on how many ladles are in their ladle fleet, but a shop might typically have 14 to 16 ladles, and those ladles will be relined every eight to 10 days. The 40 minutes of heat is typically in the basic oxygen furnaces. Electric arc furnaces will require a little longer than that, but it will be in a matter of an hour or an hour and 10 minutes. As you know, in a steel mill, they make heat very, very quickly.

MR. ASCIENZO: Thank you. Your PRWs; are they USW, United Steelworkers? I'm sorry. Your production workers. I'm very sorry. Your production-related workers, PRWs; are they United States Steekworkers?

MR. BROWN: We released all of the POWs years ago. No, the Hammond plant is a Steelworkers' plant, and I think, you know, recognizing that they are union, though, we have had a good relationship with our workers over a number of years.

MR. ASCIENZO: In previous steel cases -- this is not steel, but this is steel related -- some of the USW employees, and they have been here to

testify, and they have indicated that, as production and profitability falls, their wages fall disproportionately faster because they have profit sharing, and when profitability or production goes above a certain level or goes below a certain level, they share in that profitability a lot more; it's not linear.

Is that true here? Can you say that in public? In other words, are their wages being cut because they are losing overtime and regular hours and shifts, or are their hours and their pay going down even faster because production and profitability is going down?

MR. BROWN: Our labor contracts at Hammond don't include a bonus or incentive, but you're absolutely right that reduction in production has resulted in lower overtime amounts for our workers and also shorter work weeks.

If our normal work week is 40 hours, under our contract, if we advise the plant in advance, the union in advance, and we advice them the Thursday morning before the following work week that we're going to have a four-day work week or a four-day, two-shift work week, or four-day, one-shift work week, yes, that will, in fact, affect the compensation that

they are paid.

MR. MAGRATH: Mr. Ascienzo, I don't know to what extent I can get into this, but in the last contract negotiation Resco had with the union, the union definitely shared the pain of Resco's situation with the company. Perhaps we can provide details in the brief.

MR. BROWN: Yes, and we'll provide the details, but basically because Hammond is in the Chicago area, the workers' wages tended to move up with the steelworkers in the area, and we negotiated a contract that brought in new workers at a slightly lower wage rate to help us, and we'll provide all of that information in the post-conference document. But there is not an incentive. I know the incentive that you may be referring to, steel-production plants where they are sharing in the productivity, and we have not done that at Hammond yet.

MR. ASCIENZO: Thank you for those responses.

The other refractory bricks that we've talked about, the ones in the different colors over there; are they essentially made the same way, where different chemical compounds are compressed, and is it specifically using the same machinery or some of the

same machinery and workers as used to make MCBs?

MR. BROWN: Many of the brick products that are shown in the diagram, other than MCBs, are actually fired products, and they are ceramically bonded under high-temperature firing rather than chemically bonded like MCBs, and, therefore, you have to have tunnel kilns, long kilns that fire product at well above 2,000 degrees Fahrenheit.

Hammond, Indiana, does not have a high-temperature firing kiln that's a tunnel kiln. We have what's known as a "small shuttle kiln," so our capabilities of firing other products at Hammond are very limited.

On the other hand, the equipment that we have at Hammond could produce alumina magnesia graphite brick, if we needed to, but we actually make that product at another plant.

Some of these materials in the mixes are poison to each other, and you can't have contamination because if you do, in the steel-making process, you develop low-melting materials, fluxes, that will give you performance problems. So we do try to segregate what's known as "basic materials" from "acid materials," for example, not to get too technical.

MR. ASCIENZO: Thank you. We often hear

that purchasers are turning to different sources because they want to round out their ability to source product. They don't want to be reliant on any one supply source.

Is it possible that the inroads that the Chinese and the Mexicans have made into your sales are, at least, to some extent, due to the desire of some purchasers to have more than one source of supply, or when they go to the Chinese or the Mexican sources, do they stay with them exclusively?

MR. MAGRATH: My observation about this would be that, first of all, there is domestic competition to Resco, so they could spread it around among the domestic producers.

Second, the advantages in technical service and lead times for delivery lie with the domestic producers, so to develop an alternate source that's halfway around the world in an underdeveloped country seems to me a stretch until you're being rewarded with something else, which is a very low price. So that would continue to be the main motivation. It would not be alternate source because of the long lead time and the uncertainty of when you're going to get the brick.

MR. BROWN: I agree. We've seen --

customers have said, "Look, we don't want just one source for our ladle linings. Even though we like you, Resco, or like you, LWB, we want to have multiple sources. But the reason they are buying from the Chinese has nothing to do with multiple sources. It's price, price, and price. They are the low price. They are being dumped. They are being subsidized by the Chinese government, and that's why they are getting the business. They are undifferentiated, and the only differentiation is price.

MR. ASCIENZO: Thank you very much, and, with that, you've answered my questions. Do we have any follow-on questions?

Well, with that, I think you very, very much for your affirmative presentation and the answers to all of your questions.

Let's take a break until 20 of, by that clock on the back wall, so that's 12 minutes, give or take, and then we will start with the Respondent panel.

(Whereupon, at 12:29 p.m., a short recess was taken.)

MR. ASCIENZO: Thank you very, very much for bearing with us. You may start when ready.

MS. LEVINSON: Good afternoon. My name is

Lizbeth Levinson. I'm with the Law Firm of Garvey Schubert. To my left is my colleague, Ron Wisla. We are here in opposition to the petition.

We have several witnesses. To my right is Brian Stein. Brian is the president of S&S Intersource Company, and at least the petition has alleged that he is one of the largest importers, and he will be talking about his experiences with the Chinese and domestic markets.

To the left of Ron is Joseph Stein. He is the CEO at S&S Intersource, and he will be following up with remarks.

And then to my immediate left is James Conrad. James is with Fedmet Resources, also a very large importer, and he has, obviously, direct testimony but also some rebuttal comments to some of the testimony that we heard this morning.

So, with that, I'll turn the mike over to Brian Stein.

MR. BRIAN STEIN: Let me make sure I get this right. Good afternoon now. My name is Brian Stein, and I am the president and co-founder of S&S Intersource, an importer of MCBs from China.

I have been in this business for over 20 years, 10 with RHI Refractories and what is now known

as ANH Refractories and have considerable experience in the marketing, production, quality differences, and uses of this product.

S&S Intersource, LLC, is a niche-market supplier of high-quality, technically superior products using cost-effective raw materials in economies of scale. I do not believe that imports of MCBs from China are causing injury or threat thereof to the domestic MCB industry.

In fact, to the best of my knowledge, some U.S. producers are doing extremely well. ANH, one of our domestic competitors, has a good-value product, excellent service and management, and a devoted customer base. I am not surprised, therefore, that ANH, the largest producer of MCBs in the United States, has not expressed any public support for this petition and does not claim that imports from China or Mexico have adversely impacted the financial health of the domestic industry.

In my opinion, Resco's problems, as described this morning, are all self-inflicted and are unrelated to imports. In fact, until very recently, I have never even encountered Resco in the markets, at least our markets, and, thus, never competed with them directly.

The history of how Resco developed is important here. Resco Products, Inc., was formed when RHI Refractories purchased Harbison-Walker Refractories in 1999. Antitrust considerations consequently forced RHI Refractories America to reinvent itself as ANH Refractories.

From the beginning, Resco sought to make a mark as a huge conglomerate with a complete, jack-of-all-trades of product lines. To achieve this goal, Resco has swallowed up one company after another and is now stuck with the bill and high interest charges.

After acquiring Harbison-Walker Refractories' plant in March of 2000, Resco had the ability to make MCBs in Hammond, Indiana. Later, in 2002, Resco acquired certain assets of National Refractories, including equipment, brand names, and mix formulations. Resco subsequently acquired the assets of Worldwide Refractories and, still later, purchased New Castle Refractories and Refco. The buying continued in 2007, with the purchase of Shenango Advanced Ceramics.

Resco now has 12 production facilities in three countries producing an unusually wide range of products, such as magnesia carbon, burned magnesite, direct-bonded magnesite chrome, burned dolomite brick,

resin-bonded dolomite brick, dolomitic mortars in ram mixes, alumina magnesia graphite brick, burned alumina, plastic, and insulating fired brick.

The shopping spree on which Resco has been engaged since its creation has now come home to roost. We urge the Commission to analyze Resco's financials to determine whether the interest expenses attributable to their shopping spree have materially hindered the financial health.

With respect to the production of MCBs, Resco can only be described as bloated and highly inefficient, with high production costs that would never be tolerated in a leaner, more efficient operation.

The United States lacks a domestic source of low-cost magnesia raw materials. Producers like Resco must, therefore, import this major raw material, which places them at a serious disadvantage vis-à-vis other countries with large supplies of raw material.

The top five sources of magnesite reserves, according to size, is as follows: China, North Korea, Russia, Slovakia, and Turkey.

Other countries with natural deposits and/or sea water-grind magnesia include Austria, Brazil, Australia, Canada, Mexico, India, and the United

States.

It is important for the Commission to understand that not all raw materials are equal. There are at least eight different grades of magnesite and four grades of graphite with wide swings in price and quality. To the best of my knowledge, Resco has persisted in purchasing the high-end materials, even when such high-end materials were not necessary, and lower-priced raw materials would have served the same purpose just as effectively.

My company seeks to minimize its costs without sacrificing quality. Resco has not engaged in cost-cutting strategies essential to run a profitable business, especially in a recession. Their inability to adapt is particularly injurious in today's recession.

Resco is also hampered because it has chosen to utilize the more modern, but less-effective, hydraulic press rather than the friction press, which is widely used in China.

The hydraulic press uses the pressing force of a hydraulic piston to press and de-air the mix in one stroke. The friction press presses the mix with frequent strokes in order to properly de-air the mix, as well as forming higher densities. These are

required for peak performance.

The friction press requires manpower, but the hydraulic press has the shortfall of lower density and inferior end products. Curiously, even in Japan, with one of the world's most expensive labor forces, they continue to use a friction press due to its superior properties when forming the product.

In stark contrast to Resco's high-cost production structure and weak position on raw materials and technology, the Chinese producers have the upper hand in all aspects of production. They are positioned in close proximity to the world's largest deposit of magnesite and have streamlined production facilities using very modern production techniques and economies of scale.

Chinese-manufactured products are also disadvantaged because they carry an extra burden. On average, as high as 30 percent of the landed costs come in the form of ocean freight. The importation of bulk raw materials has a distinct freight cost advantage over finished goods as they can have a landed freight cost of 75 percent less than those imported finished goods.

This alone should make production of domestic products economical unless unwise decisions

have been made in the past or continue to be made. We believe that Resco is incapable of competing in the world market due to their insistence on using expensive top grade materials, which we deem unnecessary in some cases. Resco's products can be outperformed by smarter, lower cost products made in the correct facility and with state-of-the-art technology.

This is also true of producers in Brazil and India who are just as competitive as the Chinese producers and would quickly replace them in China should they be blocked from the United States market. In some final notes, during the completion of the questionnaire I had the distinction to call our top ten customer list and inform them that they may be getting contacted during this process. I was stunned by the negative feedback, it was astounding actually, that they are very upset, the steel customers feel they will lose dire competition that they need to be competitive. Thank you very much.

MS. LEVINSON: Mr. Joe Stein?

MR. JOSEPH STEIN: Good afternoon. I am Joseph L. Stein. It's not a coincidence, but that's my son Brian over there. I have 49 years experience in refractories for steel making. I'm currently the

CEO of S&S Intersource, LLC, an importer and distributor named in the petition. I'm also the CEO of another distributor named in the petition, Intersource, Inc. Please note that since 2001 Intersource, Inc has not engaged in the development, production, import, distribution, or sale of mag carbon bricks in the United States. All this is done by S&S Intersource, LLC, a different corporation.

I spent 34 years of my career in the refractories industry with the General Refractories Company of Philadelphia, Pennsylvania in research, marketing, product application, management, and in the last eight years, as the president of the U.S. division operating eight factories here and in Canada. And all this took place up to 1994 before we started the S&S Intersource and the Intersource, Inc companies. I personally participated in technical exchanges with a major Japanese refractory company called Shinagawa Refractories Company. This was in the early '70s.

I personally was involved in meetings reviewing the trials and the introduction of a new product in the industry, magnesite carbon bricks, which were applied in electric steel making furnaces in Japan in conjunction with the Shinegawa Refractory

Company. Another major producer was also involved in the developments, Kurosaki, maybe a more famous name. On the return to the United States I personally directed the development and the introduction of mag carbon resin bonded bricks in the United States for General Refractories Company.

General Refractories Company with eight factories had a variety of equipment available to us, and using conventional mechanical, hydraulic presses, the brick that we produced lacked sufficient density to provide competitive service life. We recognized that, and even the use of upgraded raw materials that we put into the mix composition did not offset that disadvantage, did not yield cost effective results.

As a result of that, we employed friction screw presses, similar to what is going on now in Japan and China. For at least two or three decades in China that's been the press of choice following the Japanese experience and the Japanese technology. These presses yield bricks of very high density and high performance, and we're talking a few percent denser, means a few percent lower porosity, and that translates into improved performance in terms of slag resistance and life.

Some of these products were based on lower

grades, lower cost raw materials, which could then outperform higher grades raw materials since they're being put together so dense. So press density is a major factor in performance. The improved processing results in lower cost, higher density products to provide the same competitive service performance or better as compared to other products, similar to what Resco may be making in their factories with hydraulic presses and based on higher cost raw materials.

In my experience, it's also important to be buying raw materials for your production as direct as possible from the sources in order to lower your production costs, particularly for mag carbon brick. If I may, I would suggest that this panel of the Commission make a few more inquiries to better understand how Resco buys their raw materials, how many trading companies, shipping companies are involved in this, you have to understand if they're doing it the best way possible, the lowest cost way possible, and also how they ship those raw materials from China.

Brian mentioned the penalties of shipping imported products, heavy products on pallets in containers at roughly $220, $230 a ton delivered to the United States. If you're shipping the raw

materials, you could be doing at $45 to New Orleans and another $20 in a barge into the Chicago area. That's quite a difference, a savings for a U.S. producer. They do pay higher prices for the raw materials due to the license fees imposed in China, but this difference in ocean freight is significant.

I further suggest that you do some inquiry into the reasons for the loss of some of the volume that Resco has experienced, and I appreciate the difficulty this has caused them and their organization, but you've got to understand more about the volume that was lost and the reasons it was lost. For example, I think you ought to inquire about this customer by customer, because the customers are different.

You should also investigate whether the lost accounts, lost volume, is related to integrated steel mills or electric furnace steel mills, two distinctly different processes for making steel. Now, lawyers advise me, never ask a question in any public meeting that you don't already know the answer to. In this case I admit I don't know the answer, but I'm suggesting you find out whatever the answer is. And I would venture to guess that much of this lost volume is not due to any price considerations. Furthermore,

there's been discussions about how a good refractory company services the customers, the steel industry.

And I think the Resco representatives gave you a good briefing on the efforts and the expertise required to do this. They also alluded that some of the importers are a little short in this department, and I object to that. For example, S&S Refractories, which is a little bit different name than S&S Intersource, LLC, the reason it's different is that we don't want to confuse the word Intersource with some other possible mixing up of letters. So we do business under the name S&S Refractories Company, that's a d/b/a registered in the United States in Pennsylvania specifically.

MS. LEVINSON: If I might just interject here that I couldn't sleep last night out of fear that I was going to say S&S Intercourse.

MR. JOSEPH STEIN: Anyway, we solved that problem. But what I want to say is that S&S Refractories has metallurgists, former operators, experienced sales people in the field who have been in steel mills, they know what they're doing, they're out there, they service our customers, they provide all the services that Resco has explained to you are necessary to do good business and be of value to your

customers. We do all of that.

I invite you to visit any of the major customers we have to visit them and find out their opinions of the service and the assistance that they get from S&S Refractories with the sale of high quality brick to help them lower their costs and smooth out their operations. I also heard a comment from Mr. Magrath, I think he's a lawyer or an accountant or an economist, I don't know which, he mentioned something about making these bricks in underdeveloped countries.

I invite him to visit China and find out how it looks going from a big marble airport going on to an interstate highway with those green and white signs and the reflectors in English and Chinese going into a huge city. They built a city the size of Cleveland in five years called Pudong, next to Shanghai because Shanghai was a little busy, so they just built a city the size of Cleveland. That country is on the move, it's a big player, we can't duck it, we've got to learn how to deal with it. Any of my other comments will be in the written response.

MS. LEVINSON: Mr. Stein, I don't know if you want to mention this now or perhaps we can do it in the postconference brief, but I do believe that you

told me you do have knowledge of some accounts that Resco has lost recently for reasons other than price. Are there any specifics you can give?

MR. JOSEPH STEIN: I would rather be very accurate with them, but my view is that some of their accounts were in integrated steel, meaning they make steel in a big BOF vessel, but they also have ladles, no question about it. I feel that a lot of the volume that Resco had, because of the former relationship that Harbison & Walker owned that company, many of their old time relationships are in integrated mills selling BOF linings and the ladles in those BOF plants, and in this downturn, most of the integrated mills shut down, ET Works, Fairfield, Granite City, the big mills on the lakes in Michigan, Sparrows Point.

Those are big markets for MCB bricks, and if that represents a significant portion of Resco's customer base, they lost volume because the steel mills that they serve shut down. In other cases they may have been involved with mills, I'll try and detail this in a report, where they have a terrible payment history. And when you walk away from that because they're a risk, you lose that business voluntarily.

So I suggest you look at it customer by

customer and separate integrated from electric furnace mills. Most of the S&S Refractories business is in electric steel making, electric furnaces. We deal very little with those big integrated mills except for a few customers like U.S. Steel, Granite City uses our ladle brick to great advantage. I think Brian will cover a little bit of that in changing from that shape that's semi easy-to-lay brick to special shapes that extend the ladle life in that particular shop significantly. Thank you.

MS. LEVINSON: I'd like to turn the mic over now to Jim Conrad from Fedmet Resources.

MR. CONRAD: Good afternoon. My name is Jim Conrad. I'm the vice president of technology for Fedmet Refractories. I'm going to read my prepared statement, if you'd indulge me then there a couple of clarifications I'd like to make at the end. I've been in the refractory business ever since my graduation from college in 1987. I first worked in the research and development department of North American Refractories for seven years, out of which four years were spent strictly on magnesia carbon brick development, postmortem analysis, and quality control.

I continued to work for North American Refractories for four more years in their marketing

department focusing on the application in the field of magnesia carbon bricks amongst other products. I started with Fedmet in 1998 as a product manager for refractory brick working in various capacities including marketing, direct sales, quality control, and product design. Since 2001 I have been the vice president of refractory technology.

I am strongly opposed to the petition filed by Resco. Chinese imports are not the cause of any injury to the domestic industry that they may be suffering. In my career I have seen both the domestic industry and how it serves its customers, and how Chinese producers and their U.S. customers like Fedmet serve the U.S. ferrous industry, being the primary purchasers of magnesia carbon bricks in this market.

The Chinese producers and their first line customers have superior flexibility in their production of custom engineered products. This would include but is not limited to product formulations, shape size combinations of the brick, heat retention properties, and various mechanical properties that are critical to the proper performance of these products. Whereas Resco by their own admission today seeks to limit its offerings, they would like to make only one shape, they would like to limit their offerings to the

highest volume products and to promote standardization, we do not seek to minimize the numbers of qualities, brands, and/or shapes of custom made bricks.

In order to properly service this market it's necessary to work with producers who are both flexible and have high degrees of efficiency, skilled ceramic engineers, and reliable quality control technicians, modern and appropriate equipment, and facilities of proper scale. When all of these attributes come together, the customer realizes value. The end result is that the customer receives the most cost effective product for his unique operation and a design designed for his specific equipment and backed up with superior service and support over time.

It's important to define value in the eyes of the ferrous producer. You've been told everything was price, price, price, but then you heard a few other things. In today's market the customer is not concerned with price alone, he can't afford to. He is rather driven by his cost of ownership. In the specific case of the ferrous producer, our customer is not seeking the lowest priced magnesia carbon brick, but he strives for the lowest possible cost of refractories per ton of metal produced.

Obviously, an extremely cheap magnesia carbon brick that does not last and must be replaced frequently has a high cost of ownership when you take into account factors such as labor, disposal, maintenance, energy, et cetera. However, an equally poor choice would be the misapplication of an expensive high purity product where a lower tiered but still fully suitable product would suffice and yield a lower overall cost of ownership. For example, if you were to pay twice the price but only receive a 50 percent increase in performance, you've made a poor business decision and you've increased your cost of ownership.

To minimize this cost of ownership, a ferrous producer must maximize the balance between the price of the purchased MCBs and its ultimate performance. It is precisely this balancing act in which we excel. Our Chinese producers can provide the highest value by utilizing, for example, a variety of modern equipment scaled to the requirements of the product being made. Resco, on the other hand, utilizes hydraulic presses to manufacture its refractory brick.

Hydraulic presses are a newer technology, one designed to eliminate workers, and may actually be

necessary in the production of very large brick shapes such as a 30-inch key for a basic oxygen furnace, a rather massive brick considerably heavier and larger than that one. But that same press can be inefficient, slow, and expensive to operate when you go to the manufacturing of smaller shapes such as this 8-inch long brick you have in front of you.

In comparison, our Chinese factories have a few hydraulic presses, but they have a multitude of smaller friction presses to handle efficiently the production of larger quantities and smaller bricks. Unlike the large hydraulic presses, these smaller friction presses can be quickly turned around, the molds changed, and they can be turned back on to produce another size, another shape, or another quality that our customers may require.

Lastly, I'd like to talk about raw materials. Regionally there are different qualities of ore. Ores being natural products and not synthetic they have variation. And even ores extracted from the same area go through different refining operations, and this results in a variety of grades of magnesite for brick production. Companies like Resco which must import its magnesite may not have the entire range of magnesite grades available to it.

We say that the careful selection of these grades can yield practical differences in performance and ultimately the cost of ownership for the ferrous customer. Our Chinese producers who in some cases are the source of the magnesite themselves, they're backward integrated and produce their own raw materials, have access to the entire range and may even have the ability to custom refine magnesite as it's needed. Before I close -- okay. Thank you for the opportunity to present my views, and I'd be pleased to answer any questions you may have.

MS. LEVINSON: Now I'd like to turn the mics over to the attorneys from Charles & Sanders representing RHI. Oh, not from Charles, I'm so sorry. Squire, Sanders & Dempsey.

MR. KOENIG: We'll switch on you. I'm Peter Koenig with the law firm of Squire Sanders. We represent RHI, who got some mention by Petitioners this morning. RHI exports the subject MCB from both Mexico and China to the United States. RHI individuals with pertinent knowledge on this matter are spread throughout the world in Canada, Europe, Mexico, and China. And so we have assembled their collective thought on the issues, and I was going to present them as follows.

And the general belief of course is that subject MCB from imports from China and Mexico are not a cause of injury to the U.S. industry or a threat thereof, and for several reasons. First, significant MCB imports, the import shares have existed for well over a decade. They have a stable presence in the U.S. market. One reason for such stability is that there is a limit to the extent to which U.S. steel producers will rely on China or other non-U.S. MCB supply for strategic product availability, supply chain, reliability of quality, et cetera reasons. That limit has been reached long ago.

Second, any difficulty that a U.S. industry is experiencing at the moment is from the global and U.S. recession. There are several refractory products that are mainly used by steel manufacturers, such as magnesia chrome, alumina magnesia carbon, AMC, magnesia aluminum carbon, fired bauxite bricks, and dolomite. U.S. producers of all these refractories are all doing poorly in the domestic market because of the up to 55 percent decline in U.S. steel production. There is nothing unique or different as to U.S. MCB producers in that regard.

Fortunately, there are reports that the U.S. steel industry's recovery is now beginning. That

looks good for refractories, whose consumption is directly linked to steel production, and for MCB in particular going forward. Third, increasingly, MCB purchase decisions are based on nonprice factors. That is a further reason why subject import prices are noninjurious. U.S. steel producer buyers of MCB are increasingly looking for technical services with their MCB purchases.

Steel producer buyers are phasing back their own internal knowledge and resources as to appropriate MCB use and how to instal and service it. They now look to MCB suppliers as being responsible for the appropriate type of MCB to use, as well as installation, servicing, and troubleshooting. That is the general trend of many products. It is called full line service. It reflects the fact that MCB suppliers supply many users and therefore can more efficiently and effectively provide such full line service, as opposed to each individual steel producer doing it itself.

MCB suppliers who have the expertise, interest and resources to provide this full line service get the sale. Chinese suppliers have trouble providing such full line service. They rely on U.S. companies supplying the MCB to the steel company to

provide the full line services needed, but even then there is difficulty in communicating and coordinating with Chinese suppliers in this regard. It takes much longer for issues to go through the supply chain and for internal reaction and resolution of issues.

Fourth, Petitioner Resco's service has been poor. That is directly the cause of any difficulties it is experiencing. Resco has not been so active with customers as to quality or full line service issues. A reason could be that Resco was bought out in 2005 by a financial investment firm who was recognized to be extremely focused on cost reduction, apparently from a short term strategy to seek to flip resell the company for a profit. That strategy is not a good thing when the U.S. steel producer consumers of MCB are increasingly looking to MCB suppliers to provide the services to select the appropriate MCB brands as well as to safeguard their installation and servicing, which requires a longer term vision.

Fifth, further and related, Petitioner Resco began as a small company. It then began a rather large series of acquisitions of other refractory companies, which actually have already been listed, some five companies. We understand that all these purchased units have not yet been fully integrated

into Resco. As a result, the effectiveness of the Resco management and the sales force has been undermined. It would seem that Resco has just grown too fast for its management to deal with it.

Sixth, restrictions on Chinese or Mexican MCB imports are most likely to benefit Brazilian and European MCB suppliers to the United States who have good contacts and networks into the U.S. market. And Brazil has increased its MCB capacity of late. In short, for the above reasons, RHI does not believe that MCB imports from China and Mexico are a cause or threaten to be a cause of injury to the U.S. industry.

MS. MENDOZA: Good afternoon. My name is Julie Mendoza, and I'm appearing on behalf of Vesuvius and its Chinese supplier, BRC. I would like to just switch gears for a moment and talk about the data that the Commission's collected and what it shows. After the APL release yesterday I think we now have responses from all four U.S. producers. We believe we have very good coverage in terms of the importer data and good coverage in terms of the Chinese export data as well. And we understand that in terms of the missing data that the Staff is working hard to get that.

So remarkably at this preliminary stage of

the proceeding we have a very good and very strong record. And I agree with Mr. Magrath, that's kudos to the Staff in terms of collecting all that data. I think the data very much demonstrates exactly what we've been saying here this afternoon and that this is really a very straightforward case. Even if you take the data that the Petitioners have included in the petition with respect to imports, and we would note that the actual data shows very close trends to that data, there is really no basis for going forward here at all.

And I think that the fact that Mr. Magrath repeatedly referred in his testimony to a comparison to 2000 whenever asked any questions with respect to what was happening during the period and any indication of trends, he constantly referred to and compared it to 2000, I think that speaks volumes. Mr. Brown, it seems, was also doing the same thing, i.e. referring back to 2000 when doing his comparisons of the period of investigation, because he kept talking about the increasing market share of subject imports.

But if you look at the data that he presented in his petition, the market share of imports actually declined over the period. So we think that based on the data that currently stands, it's very

straightforward that there's no injury here. Will is going to talk, Will Planert from our office, is going to talk a little bit about the actual data itself and go into some details about it, obviously in a public forum he's going to talk about trends. But let me just make a few comments.

One, it's clear that this is a mature industry. Two, it's clear that imports from China have been in this market for a long time. That's not very surprising given the fact that they have the largest magnesite source in the world, and therefore would certainly be expected to be supplying MCBs to the world market. And finally, and most significantly, the boom and bust cycle of the U.S. steel industry over the period of investigation explains and explains completely the performance of this industry.

In fact the data is so compelling that, in fact if you look at what's happened to this industry it's very clear that it's due entirely to the bust and boom cycle of the steel industry because if you look at the volume of imports, which were stable, if you look at the cost of goods sold as a percentage of sales, which was stable over the entire period, then it's very clear. And they were very stable, the cost

of goods as a percentage of sales was very stable right up until the time of the bust at the end of 2008 and into 2009.

If you take those two facts into account and then you look at the performance of the industry over time, it's very clear that the effects of the boom and bust cycles completely explain what was going on with this industry. In fact the effect was so overwhelming that it broke any causal link between imports and the performance of the domestic MCB industry. I think Mr. Magrath's only rebuttal to that, to the question of, well how do you explain what happened in 2009 if it wasn't due to the bust of the steel industry how do you explain it? His only response was to look at the lost sales and lost revenue allegations that he's made, and I would suggest that we'll have more to say about that in our confidential brief.

Finally on threat, I think all of us hope, and certainly I feel less scared when I open the newspaper every morning, that it looks as though the economy is strengthening and getting stronger, I understand Mr. Stein can talk about what's going on in the steel industry and what he sees in terms of future demand, but I think we're all cautiously optimistic that things seem to have started to recover. So then

the question I guess before the Commission is, what's going to happen when steel consumption comes back, what's going to happen to subject imports at that point in time, and we would submit that there are really two answers to that question.

Number one is, if you look at what happened during the boom years of the steel industry when there was lots of demand, imports didn't surge. In fact they were virtually stable. So that tells you something from the past about what's likely to happen in the future when demand comes back. Secondly, and I think again Brian Stein can talk about this, we're seeing a very rapid recovery in the Chinese steel industry. They put a lot of money into stimulus, it got right into construction, and in fact they've seen a very strong recovery in that steel sector. So I think the answer is that demand's going to be a lot stronger in China for the foreseeable future than it's likely to be in the U.S. And with that I'll turn it over to Mr. Planert.

MR. PLANERT: Good afternoon. Again for the record I'm Will Planert of Troutman Sanders appearing today on behalf of Vesuvius and its Chinese supplier BRC. As has already been noted today, much of the data received by the Commission to date is

confidential, and we will address this data in our postconference brief. This problem is compounded by the fact that the questionnaire responses of the Petitioner are still not complete, and we trust the Commission will insist that Resco provide the missing information.

Even on the public record, however, it is evident that an affirmative determination cannot be sustained in this case. Simply put, there is no prima facia indication of material injury from subject imports. The industry has been largely static over the POI with nothing significant happening until late 2008 when the recession hit. At that point, the receding tide does appear to have lowered all boats. But again nothing in the record of this proceeding connect any difficulties experienced by the domestic industry with subject imports of MCBs.

As all parties have agreed, the central condition of competition for this industry is that demand of MCBs is directly tied to steel production in the United States. And as might be expected during the worst economic recession since the Great Depression, steel production in the United States declined steeply beginning in the fourth quarter of 2008 and through the first half of 2009. According to

AISI, U.S. steel shipments decreased 52.5 percent in January to June of this year compared to the same period in 2008.

As a result, demand for MCBs has declined sharply and the volume of domestic shipments and subject imports both have declined commensurate with the contraction in steel production and the idling of steel making facilities. Significantly, however, none of the normal causal links between imports and domestic industry impact exist in this case. First, while there are some differences among producers, we believe that the confidential record will show that the domestic industry as a whole has remained profitable at both the gross and operating levels throughout the 2006 to 2008 period.

Only in the first half of 2009 does it appear the industry lost money, and then only at the operating level. This is hardly surprising in the face of what is a once-in-a-generation macroeconomic contraction. Notably, domestic producer unit values continued to increase in 2009 as did gross profit. Second, there is no indication of any adverse volume effects from subject imports.

As has already been testified to, subject imports have been a stable presence in the U.S. market

since well before the start of the POI. Morever, between 2006 to 2008, imports appear to have declined and there was no surge in imports even in the 2007 to 2008 period when the steel industry was booming. There are problems with the import data presented in the petition, and we will be elaborating on those in our posthearing submission.

But even using the data from the petition, which presumably presents the most favorable possible case for the Petitioners, they showed that subject imports declined between 2006 and 2008 while domestic producers increased production and U.S. shipments. On a relative basis, and again using the data presented in the petition, subject imports share was basically flat, the market share of nonsubject imports declined, and the domestic producers' share of the market went up significantly.

Only in the first half of 2009, at the height of the recession, do we start to see declines in domestic producers' production and shipments. Those declines, however, are clearly attributable to the sharp decline in demand and were accompanied by equally sharp declines in the volume of subject imports. As we will demonstrate in our postconference brief, using the same methodology as that used by the

Petitioners to estimate subject imports, the decline in subject imports in 2009 was substantial.

Third, there is no evidence of any adverse price effects from subject imports. Whether measured using AUVs or quarterly pricing data, domestic and import prices both have increased steadily and significantly over the POI. There has thus been no price depression. Moreover, the domestic industry's cost of goods to sale ratio has been remarkably stable over the POI, indicating that there has also been no price suppression, as U.S. producers have been able to pass on increases in costs in the form of higher prices.

Fourth, there is no indication of any adverse impact on the domestic industry. As already noted, industry operating profits remain positive until the first half of 2009 at the height of the recession, and again at that point subject imports also declined, and there are no other indicators of any causal links between subject imports and industry performance.

Fifth, there is no indication of a threat of material injury in the imminent future. Subject import volumes appear to have declined between 2006 to 2008, and that decline accelerated in the first half

of 2009. Chinese producers are not heavily oriented towards exporting to the United States. Throughout the POI, the majority of the Chinese industry's shipments of MCBs have been directed toward the Chinese domestic market and third country markets.

Notably, even during the boom years of the U.S. steel industry of 2007 and 2008, subject imports into the United States grew only modestly, according again to Petitioner's own estimates in the petition. Furthermore, the EU recently announced its decision to reduce the EU antidumping duty rates on MCBs from 39 percent to 0 for BRC, and to substantially reduce the rates for another major Chinese producer from 27 percent to 14 percent. This will only increase the focus of the Chinese industry on the EU.

In summary, the evidence of record shows no indication of injury or threat. Up until the first half of 2009 you have a stable and profitable domestic industry, increasing domestic production and shipments, rising prices, stable cost to sales ratio, and decreases in subject imports. When the recession hit in 2009, the industry's output in sales did decline. That decline is in direct response to the recession and may not be attributed to subject imports, which also declined. We therefore urge the

Commission to reach a negative preliminary determination in this case.

MS. MENDOZA: I'd just like to add two quick comments on Brazil. According to our clients, they believe that LWB is owned by Magnesita in Brazil, which I think suggests that the Commission should be able to obtain good information with respect to Brazil. Our information is that Brazil has significant capacity to supply this market. Thank you.

MS. LEVINSON: That concludes Respondent's panel's presentation.

MR. ASCIENZO: Thank you very much for that presentation. We start this afternoon's questions with Ms. Haines, the investigator.

MS. HAINES: Elizabeth Haines, Office of Investigations. Thank you very much, that was really helpful. Earlier, both Mr. McClure and I had asked the Petitioners to talk about in their briefs the HTS numbers. If you could do the same, kind of look at them a little bit and if you think there are issues with them. I mean obviously we're going to be using the questionnaire data, but that would be helpful. Also in your posthearing briefs any more comprehensive data about the Chinese industry that you could give us

would be very helpful.

MS. LEVINSON: We're working on that, we've been in touch.

MS. HAINES: Thank you, very grateful. Besides the EU are there any other restrictions on the Chinese or Mexican products in any other countries that you know of?

MS. LEVINSON: I believe Turkey.

MS. HAINES: Turkey, okay. Actually, that's all I have at the moment. Thank you.

MS. LEVINSON: Okay.

MR. ASCIENZO: Thank you very much. We turn to Mr. Haldenstein the attorney.

MR. HALDENSTEIN: Good afternoon. Thank you for the presentation. I'd like you to try to quantify the capacity in the third country markets, that you suggested there is ample capacity there but I'd like to see some numbers if possible.

MS. MENDOZA: One area of possibility, I noticed that Petitioners provided some pages from a refractories study that was done. And I don't know if there might be that type of information in the report as a whole, they seem to have access to that, they presented some of the pages from it.

MR. HALDENSTEIN: Okay.

MS. MENDOZA: But we'd be happy to look for any data we have as well.

MR. HALDENSTEIN: Okay.

MR. THOMAS: This is Ritchie Thomas. We can provide some data with respect to EU production capacity.

MR. HALDENSTEIN: Thank you, that would be helpful. Also I'd like to ask you to address discretionary accumulation. You probably heard that there was a reference to differences in competition between the imports from Mexico and those from China. If you could discuss that and any other, you could also address accumulation for material injury analysis as well, I'd appreciate that. And any differences in where the sales are being made.

MS. MENDOZA: We'll be happy to do so in our brief.

MR. THOMAS: Yes, we'll be happy as well, certainly in the case of the Mexican product there are geographical limitations on where it's sold in the United States.

MR. HALDENSTEIN: Also you probably heard earlier the reference to imports by the domestic producers, if you could address that and whether you think any of the producers need to be excluded as

related parties.

MR. THOMAS: We will do that.

MS. MENDOZA: We'll be happy to do that, yes.

MR. HALDENSTEIN: That's all I had, thank you.

MS. LEVINSON: You didn't ask the question of whether we agree with the like product definition? Legal counsel always asks that question.

MR. HALDENSTEIN: You can address that too if you want to, you have my permission.

MR. MCCLURE: Actually, if you want to speak on it right now it would be appreciated.

MS. LEVINSON: Well, we might as well get it out of the way, right?

MR. MCCLURE: Yes.

MS. LEVINSON: At least for purposes of this preliminary determination, and I'm speaking on behalf of my clients only, we do agree with the Petitioner's definition of the like product.

MS. MENDOZA: We have the same view in terms of the preliminary.

MR. THOMAS: In general we have the same view, but we have some issues we will raise in our brief.

MR. HALDENSTEIN: Thank you.

MR. ASCIENZO: Thank you very much. And with that we turn to Mr. Fetzer the economist.

MR. FETZER: Hopefully bells won't be ringing soon. If I go too long, so, but thanks for appearing this afternoon and coming this morning and sharing your expertise, it's always good to hear as many sides of the story on this and for helping us understand what's going on in the marketplace. Just trying to get a sense, the general sense I got from the panel was that you sort of disagree that price is the main factor or there's nonprice factors that matter.

And I heard some references to, you know, some problems with Resco's quality and other issues with them having high cost or having too high a quality of raw material, but I wasn't getting a sense of, if for example, you know, we look at the data, and it's not final yet, but if we see underselling is there a way to explain that?

I mean one way you say is, well nonprice factors and maybe quality's lower on the imports, but it sounds like here the imports are, if not competitive, then maybe actually at a higher quality. So is there anything, and maybe I missed something,

that would explain that? And I don't know if we're going to see that. Or are we expecting that the price data will have overselling and that will explain it all?

MS. LEVINSON: Mr. Fetzer, I'm going to let Brian Stein, or I'm going to ask Brian Stein, to speak to this issue. He has some serious reservations about the choice of products that have been requested in the questionnaire, and he'll explain to you why.

MR. BRIAN STEIN: We had some difficulty in determining what product 1, product 2, product 3, what those exact definitions were. Even a simple data sheet won't tell us what grade of raw materials were necessarily used in those products, so we have to do our best to have a like product. But what we can tend to see out in the marketplace from our limited experience with our customers is that we can produce through technology for bricks that outperform others using lower cost raw materials, and that was the basis of the discussion. But we're a little bit hindered due to the fact that we're not privy to the mix recipes of those three bricks, so I don't know if they're apples and apples to be honest.

MR. FETZER: Okay. Mr. Cameron?

MR. CAMERON: Don Cameron also with

Vesuvius. Just one thing, I think this gets to what Mr. Planert was referring to earlier with respect to the trends that you see, a) the constant relationship between cost of goods sold and sales value, and secondly the issue of whether or not domestic prices are or are not constantly increasing over a period of time. And when you analyze those, it does start to put into perspective the claims that there has been constant underselling and grabbing of market share when indeed if you look at the data and you don't see the market share changing very much, that story starts to evaporate.

The other issue with respect to, in other words you can have nominal price underselling but it can be a condition of competition in the market that actually is a constant and accepted situation. We already had testimony this morning from the domestic industry with respect to the issue of the length of the supply chain, and that was noted by them as a disadvantage that imports have. That doesn't also take into account the issue that's already been discussed here today with respect to the advantage that domestic producers have with respect to ocean freight.

So there are already on the table, without

getting into confidential information, a lot of factors that go into explaining this situation, and I think that those are things you're going to be wanting to take into account. And then when you combine that with the issue of the definition of the products, and I would only mention the fact, the question that you had earlier today with respect to the number of questionnaires in which people say, well I'm not really sure about that product but I am selling this product.

Well, normally we see one or two of these things in questionnaire responses, I mean we've all seen a lot of these questionnaire responses, but when you start to have repeated questions raised by the responding companies about whether or not they are actually matching apples to apples, it starts to raise questions as to whether or not that's where your valid observations are with respect to the impact of pricing or indeed whether or not the overall trends that you're seeing with respect to increasing prices and so forth are more valid. So I just thought I'd throw that into the mix.

MR. FETZER: I appreciate that. I mean I got the sense, I mean typically if people feel their product isn't competing they just don't give us the

data, but it's another thing if you say, gee the specifications aren't exactly the same or as tight as we have but we feel this is competing, and that's what I took those responses as, but as I asked this morning I welcome your comments on that. In particular if you see any specifications that are, you know, if there is particular reasons for why the different specification wouldn't match, and again that's to the lawyers who can look at this stuff.

But sort of getting back to that, I mean I also from the panel I didn't hear an argument I guess of attenuated competition that you're selling different things. It sounds like there might be different specifications, you don't know their recipe, but you're selling it, they are competing, you know, for the same customers, the same types of uses, would that be accurate to say?

MR. BRIAN STEIN: I could probably speak three weeks about that. I'm very happy that Resco brought that brick. That brick I believe was invented by Resco many many years ago when brick laying in steel ladles, the technology for MCBs were not around, they didn't exist, there were other refractories involved. The ladle brick did not last very long, had to be replaced very often, very big drain on manpower,

lost time, you name it.

That brick in its special shape, you throw one after another, it's one shape, using a ramp to go up, it's called a spiral lining. That was fine and dandy when the brick didn't last long. When mag carbon brick came around, the technology, if you look at the stress, mag carbon brick will expand up to 2 percent linearly, regularly, with a force of 8,000 psi or greater, enough to split the steel shell if not properly attended to. Those stresses are enormous and will crack the corners on this brick.

So we have made it our mission to replace that shape right there with mini keys that have straight sides or arch brick which are tall, many thin joints going around the ladle, to relieve those stresses. We can most often use lower grade raw materials, lower cost products, to outperform that one with a high grade product. So it's our mission to change the thinking of the steel plant. And one other comment, I have never quoted any of my customers to a specification.

They typically say, Brian, I need to achieve this lifetime or this cost per ton of steel, you tell me how I'm going to achieve that. And if the customer had been using a carbon grade of 8 to 10 percent, I

tell them, we need 15 or 18 percent, something completely outside the box, I say, trust me, let's try it, let's take small steps to achieve that. And that's what our goal is, to give the customer something outside the box that works better at lower cost to him.

MR. FETZER: Okay. Mr. Conrad, did you have?

MR. CONRAD: Yeah, I'd like to follow up to that. I heard the Petitioner describe these products as both a commodity and a highly engineered product, and they seemed to go back and forth between the two. I also heard the comment that there were no new materials, therefore no breakthroughs, no new technology. I take exception to that. We continue to innovate.

Not only are we looking at new combinations of the existing materials, we're also looking at the variation that exists in these natural ores, trying to fine tune the product, working with the other things that aren't minerals, the antioxidant addition, some of the exotic things that you can put into these brick, to change how they behave. The other thing we're doing is we're constantly looking for new applications for the products we already have. And we

have examples of that, and I won't bore you with the details. If you'd like to hear about that, I'd be happy to put that on paper and we'd submit that later.

I heard the Petitioner complain that they didn't have the money to continue R&D and yet it seemed as if they were saying that it was pointless, that there was nothing new on the horizon and no need for it or no results could, you know, result from that. The other thing that I heard, and it goes to Mr. Fetzer's question on price but I'm going to take a slightly different angle on that, I also heard that the Petitioner has 30 percent of their relationships are old relationships going back to when they worked with people who have since come up through the steel company progression.

And yet he slammed another supplier for selling brick out of the trunk of his car to his friends. I fail to understand the distinction there. Relationships are a large part of this, and when you are bought, when you acquire other companies, it disrupts these relationships, it breaks trust. When you downsize and you eliminate people, consequently you're going to break some relationships. If you have a salesman, he knows people that are accustomed to seeing him, there's a certain trust, a relationship,

and there's bound to be confusion and opportunities for other companies when these sorts of things happen.

Fedmet wasn't immune to this. We had an approximate 25 percent reduction in our staff in November, and we're seeing some of the same things. It was a case where we realized there were going to be negative consequences to the reduction of staff, but it was a necessary thing given that steel production at best was 50 percent of what it had been previously, I would say a 30 percent reduction in the staff levels at Hammond might actually not have been enough to be appropriate to their customers only consuming about 50 percent of the product they normally would have. Those are just some of the clarifications that I was hoping to get in before I ran out of time. Thank you.

MR. FETZER: Okay, thanks, I appreciate that.

MR. PLANERT: Just one more point coming back to your question about attenuated competition. I mean the flip side of what Mr. Conrad just pointed out was that, you know, there was testimony this morning from the panel that there is a significant segment of their customer base that doesn't purchase primarily on price, I think they call them value customers. And so at least for that segment of the market there could be

some attenuated competition at least as to imports. I mean it may be that they're getting competition from the other large U.S. suppliers for that segment. But at least by their own reckoning, that's a segment of the market where the competition may be a little more attenuated.

MR. FETZER: No and I appreciate that. And just, yeah, I think I had more comments from the first panel on attenuated competition than the second one, that's why I thought, just wanted to make sure I knew who I was talking to.

MS. LEVINSON: Mr. Fetzer.

MR. FETZER: Yes?

MS. LEVINSON: I'd just like to add that Mr. Stein did testify that he does not encounter Resco in the marketplace. So there, you know, at least between him there has been virtually no competition with Resco.

MR. FETZER: And I guess, to follow up on that, is that just for particular end uses or just, I mean is there any explanation behind that? Because obviously they're selling something similar, so is it you're targeting different types of companies?

MR. BRIAN STEIN: Well, we're a relatively small company. We have much limited customer base

than they do. They serve or try and serve every customer to the best of their ability, and we either target what we can or can do best, and in the course of going to any customer you typically have ten suppliers all lining up to try and make that sale. Really what my comment's based on is where we compete, it's normally not against Resco, it's against another domestic supplier mainly or other Chinese suppliers. They're not a heavy, I couldn't tell you where their price points are based on any customers of mine.

MR. FETZER: Now, when we're looking at this stuff, and we're not just looking at Resco, we're looking at the whole domestic industry, so could you speak, I mean you are competing against the domestic industry, maybe other companies than Resco then, okay.

MS. LEVINSON: Mr. Fetzer, I'd like to add one more thing on your price comparison, on pricing data. You know, it is of course a matter of public record that the Office of the United States Trade Representative has filed a complaint with the WTO complaining that exporters of magnesite and other raw materials from China have artificially priced their products, particularly high in part, and that the Chinese government is controlling the exports and the price of those exports by limiting the supply that can

leave China.

Resco and the other domestic producers are importing the magnesite from China. They are the ones that are paying what the USTR is calling an artificially, and illegally artificially, high price. Our clients are not paying that price. They are purchasing from Chinese suppliers who have access to the magnesite in their country, and that makes a big difference in terms of how the pricing ends up.

MR. FETZER: Okay.

MS. MENDOZA: Mr. Fetzer, could I just also add?

MR. FETZER: Sure.

MS. MENDOZA: I think on the side of our panel, I think I heard both Mr. Stein and Mr. Stein both say that there was a big relationships with clients, long term relationships with clients were a very important factor segmenting the market and that, I guess due to just particular customer requirements, oftentimes they tend to stay with a single supplier and work with that supplier over time. So I don't think we're contradicting that at all. I mean I heard the U.S. industry saying that and we certainly agree with that.

MR. FETZER: No, and actually I did want to

follow up on that. I mean this morning we heard I believe a statement that generally customers like to stick with one supplier and not, you know, maybe diversify within the domestic industry a little bit. Do you find that also the case? You form these long term relationships, you tend to deal with this, the customer likes to deal with one supplier?

MR. CONRAD: In a situation like the one we have today where the steel companies are struggling for their very life, those kinds of relationships and even, to a certain extent, service will become secondary, and they will start to broaden out a bit. They don't want to carry inventory. Having multiple suppliers increases inventory levels.

So, yes, those things were true in the past, but it's a little different world right now.

The other thing is that can also go the other way. I'm aware of instances where Resco has walked away from two of their historically very loyal customers. Both were in financial jeopardy, and they just walked away and refused to ship.

So when we're looking at lost sales, I think we need to be careful here. Did they intentionally walk away? Was it not a lost sale, but did they throw the business away for concerns of risk?

There have been a lot of integrated mills, in particular, somebody mentioned, that are idled right now, and I know for a fact that one of their largest customers, the one that uses the laser as part of the program, as they discussed earlier, that plant is idled, and there is a question about whether or not it will ever restart. I would hope that's not considered a lost sale. That wasn't lost to a competitor; that's just simply lost production.

So as you go through those 26 lost sales items, we need to be careful about what the root cause is for those.

MR. FETZER: Thanks. I appreciate that, and we do follow up with those individually, as Mr. Joseph Stein suggested earlier.

This morning, the Petitioners said that about 30 percent of their customers were the sort of long-term relationships, and the rest, I think, they termed as "value," where price might be more important. Do you see a similar type of breakdown or changes in the marketplace along those lines, or is it different for your customers? Particularly, Mr. Stein, could you have a smaller, more select customer base?

MR. BRIAN STEIN: Generally, I think I would

be lying if every customer didn't complain about price. That's a fact. You give them a price, and they complain about it, but, at the end of the day, it's the technology, it's the comfort level they have with you, your local agent, your staff, to give the customer what he needs. He is very intelligent as a customer. He knows what he wants. He knows where he wants to find it.

So, in general, the people who bring him new ideas and new abilities to make his life easier or to lower his costs, he will go with them, in my opinion.

MR. FETZER: Okay. Mr. Conrad, do you have any thoughts on that?

MR. CONRAD: No. I concur with what Mr. Stein said.

MR. FETZER: Okay. On this purchasing of raw materials, you said the Chinese producers buy from China. Do we know anything about the other domestic producers, other than Resco? You're saying Resco is importing it. Are we assuming that all of the U.S. producers are importing, and what about the Mexican producers? Do we have any sense on that?

MR. THOMAS: They use local ore.

MR. FETZER: Local? Okay.

MR. THOMAS: That is, local in Mexico.

MR. FETZER: Okay. The other U.S. producers; is there any sense they are doing the same thing as Resco?

MS. LEVINSON: Are you referring to importing the magnesite?

MR. FETZER: Yes, importing the magnesite.

MR. CONRAD: I can speak to that a little bit, not from my current employment, obviously, where we're dealing with one specific area, but when I did work for a domestic producer, they shopped globally for magnesite. We used Japanese magnesite, we used Turkish magnesite, we used sea water magnesite from the West Coast of the United States, and products were custom built around available raw materials. So all of these sources are available.

It's not strictly China. It just so happens that the fusion process, the high-density, low-porosity grain that somebody had referred to earlier, that happens to be predominantly what the Chinese make, and it's the best for brick making, so anything else is a compromise.

MR. FETZER: Okay. The ocean freight issue was brought up on a couple of different occasions. I just want to clarify. Is that on the MCB, on the magnesite, or is it on both, the high-ocean freight

coming from China?

MS. LEVINSON: I think Brian had testified that 30 percent of the landed price for the bricks was due to ocean freight, and it was significantly less -- how much was it less for magnesite?

MR. BRIAN STEIN: I believe I stated there was about a 75-percent price advantage by shipping in bulk, raw materials in bulk.

MR. FETZER: Okay.

MR. BRIAN SMITH: I don't know if I want to give the specific numbers, but --

MR. FETZER: No, no.

MR. BRIAN SMITH: I think someone had mentioned that, for instance, a 20-ton container, a small, 20-foot container, from Asia landed to a destination in the United States, not necessarily a port -- it may be an "inland port," so to speak -- can be anywhere from $220 per ton or to $250 a ton, penalty, basically, for finished products from China.

MR. FETZER: Okay. And this is on the magnesite?

MR. BRIAN SMITH: For MCBs, finished products, but as for raw material, the purchase price in China, the freight to New Orleans in bulk, 5,000-to-10,000-ton holds at a time, can run anywhere from

$40 to $55, and then further barging up the Mississippi River to its final destination, another $15 to $20.

MR. FETZER: So that's cheaper.

MR. BRIAN SMITH: Much cheaper.

MR. FETZER: Okay.

MS. LEVINSON: The point is, it gives a significant advantage --

MR. FETZER: To --

MS. LEVINSON: -- to the domestics in importing the magnesite.

MR. FETZER: Okay.

MS. LEVINSON: You have the disadvantages in terms of the higher price, but it's offset partially by the fact that the ocean freight that they pay is a lot less.

MR. FETZER: I thought there was an argument made about underselling, that domestics had to pay the higher, or that was more the fact of the Chinese subsidy. I may be getting things mixed up here. I'm sorry.

I thought Mr. Cameron made an argument that one reason for underselling was the high ocean freight fee.

MR. CAMERON: Well, one of the factors of

the disparity is going to be there are higher ocean freight prices, and there are lower ocean freight prices for the U.S. industry, but I think you heard this morning the argument was that the higher prices were due exclusively to the export controls and the additional costs in China, but, all in all, what we're saying is these things kind of work out and that there actually are higher costs in terms of the imported finished product than for the raw materials, which gives the U.S. industry an advantage when they are importing raw materials.

MR. FETZER: Okay. In terms of Mexico, with this issue with freight, do they have an advantage or a disadvantage because of this since they are getting it from a local source? Would that be a cumulation issue maybe?

MR. THOMAS: It's my understanding that the product from Mexico is shipped to the U.S. by truck and that the cost of that shipment significantly limits how far into the U.S. it can efficiently be shipped. So, in general, it's limited to the Southeast, the Southwest, and perhaps the lower Midwest. They can't reach up to where the big, integrated mills are, around Cleveland and Chicago and so on, as a general rule.

MR. FETZER: Thanks. I forgot. I think I heard this somewhere on the record, but is there a movement -- I think this draws on Mr. Conrad's testimony earlier about talking about the fact that price matters in terms of -- I believe you said price per ton of steel -- is there a movement towards having contracts not per ton of MCB but per ton of steel? Has there been a movement towards that? Is it a big issue in this marketplace right now?

MR. CONRAD: It's becoming a much larger issue. As these companies struggle to survive, they are looking to shed risk. I know of at least eight new contracts in the last two months that are exactly what you're describing. The supplier goes in, takes over everything, supplies 100 percent of the product, but the amount of revenue that he can get is capped. There is a fixed price per ton of steel made. That's his entire revenue source.

So whether the operation is smooth or not, whether the performance is there or not, the customer has a fixed cost. So they have looked at their situation, and they have decided that we can operate with this particular cost, and they look for a supplier who is willing to take that on and take on that risk for them for the incremental business.

We're not pursuing any of those, have not signed any new contracts. I heard a comment earlier about the bundling, that the MCB was the gateway, and you get into the rest of the business that way, and yet I see one of the drawings up here is of a dolomite ladle, and I can tell you that Fedmet is not in the dolomite business, so that would not be applicable to us whatsoever, and it's a large reason why these most recent contracts haven't been of any interest to us. We don't have the depth of catalog in order to be able to do that, so I think that argument sort of falls on its face.

MR. FETZER: Okay. If someone is pricing per ton of steel, is there a different level of service, or is it just a question of taking on risk, and you're just making sure you're taking on the risk that you might come up with less steel, given the amount of MCB that's going in?

MR. CONRAD: I'll only speak for Fedmet, but if we were assuming that risk, we would certainly put the boots on the ground to watch things and to try to tweak things to try to help and work with the customer in order to make that a win-win situation. Nobody goes into this looking to basically be a bank or an insurance policy for a steel maker. You have to have

some confidence that you can actually do this, and then you would provide that service, both for your own needs and security and for the customer as well. Obviously, they need to be happy with this if it's going to continue.

MR. FETZER: Okay. Ritchie Thomas, yes?

MR. THOMAS: I would agree with that. You have to know the customer and its facilities and each individual facility very well in order to be able to do that.

MR. FETZER: Okay. I appreciate that.

Ms. Mendoza, when you were talking about the steel production driving the trends in the industry, and I posed this question this morning, is there a way to look at steel production in terms of are there public data out there? I think, this morning, the testimony was they have a special formula. They use proprietary information that they can provide confidentially, but is there any public information we can look at to give us at least rough trends or maybe a series of indicators? I don't know what you based your analysis on.

MS. MENDOZA: We based it on AISI data, just for steel shipments data, and I guess that would be generally what we would look to in terms of this.

MR. CAMERON: I mean, just data source for steel?

MR. FETZER: Right. Yes. What should we be looking at in terms of looking at demand? If we're saying, "Here is the change in demand," are we looking at --

MR. CAMERON: I think two things. First of all, the point that was made earlier today with respect to the difference between integrated and electric arc furnaces is very important, especially when you look at the capacity utilization of the integrated producers vis-à-vis the capacity utilization of the electric arc furnace makers, and I believe that AISI, I think that they break that down, but I would have to double-check that.

MS. MENDOZA: Basically, we believe you can use AISI data, and I think that data is going to be very close to virtually any estimate that people are making. Everybody is talking about 50-percent declines, basically.

MR. CAMERON: You've got to remember, you're looking at steel making. AISI is good on steel-making data.

MR. PLANERT: I think there's sort of two issues here that maybe got a little bit confused this

morning.

One is sort of what do you look at to say, okay, the demand is tied to what? Well, it's probably overall steel production, whether you get it from AISI or whatever.

The second point is if you want to actually quantify demand and get a hard number, what calculation do you use to extrapolate it, and I think that's where the panel this morning said, well, they have a formula that they have developed that they think works, and we're not in a position to have a strong view on whether that exact formula is or isn't the right one.

But in terms of if you just want to know trends, then, okay, whatever the consumption has been -- how much is it going down, how much is it going up? -- I can't remember the specific source of the petition data, but it was, I think, a pretty broad measurement of overall steel production, and, for these purposes, particularly given trends that are so dramatic, that's probably going to work.

MS. MENDOZA: Yes. We're basically talking about trends here, and I think we would base our analysis on AISI data as a good source for determining trends.

MR. FETZER: Okay. Well, if you can just provide that in your post-conference brief, I would appreciate that.

MS. MENDOZA: Certainly.

MR. FETZER: Okay. Just to cover a few things I talked about this morning, in terms of the cost share and end uses, generally, and this is sort of to straighten out what's in the questionnaire data, the testimony this morning was it was on the lower end, around two percent, in cost share of MCB in the final steel product. It may be higher if you were doing it as a percentage of a furnace or ladling or whatever. Mr. Stein, Mr. Conrad, does that sound -- what's the share of MCB in the final finished steel product, I guess?

MR. BRIAN STEIN: If I recall, that was split up into market segment or ladle versus arc furnace. Is that correct?

MR. FETZER: If it is. I'm trying to get a sense of what it is. There could be a range of values.

MR. BRIAN STEIN: Perhaps I misunderstood --

MR. FETZER: The finished cost of steel; maybe it's 10 percent for an electric arc furnace and two percent for an integrated mill, or the other way

around. I don't know, but just -- well, you can qualify it however you want.

MR. BRIAN STEIN: In general, you look at the steel ladle, the top of those ladles, and it's the working lining only. The ladle is a very complex system. It's got bottom refractory. It's got safety-lining refractory which is not replaced as often. But the MCB is a small portion of the ladle, but it's also the ones changed the most often. In an electric arc furnace, almost the entire lining of brick is MCB, but there is an equal amount of tonnage of nonshaped materials or hearth material, gunning material, to maintain that furnace.

Look at a BOF lining; it's mainly MCBs, but this is a market segment that one BOF lining is the biggest single vessel that uses MCB in tonnage, pure tonnage, but, years ago, they used to change them every two or three months, now two or three years, so that market has depleted completely.

So if you're selling to integrated steel BOFs, you're in big trouble, but, overall, MCBs to each vessel has a certain degree. Say, a ladle, it's about 35 percent of the total use of refractories in there. In an arc furnace, it might be closer to 50 percent. So it varies vessel to vessel, but, overall,

I would have to give you an opinion later.

MR. THOMAS: RHI's estimate is that per ton of steel, it's approximately one percent.

MR. FETZER: Okay. I appreciate that.

In terms of substitutes, the panel this morning indicated that while there may physically be some substitutes, it's not really, you know, practical. Do you agree with that or disagree with that, in terms of using dolomite, these other subjected substitutes that some Respondents have indicated in their questionnaire responses?

MR. CONRAD: Yes. Certainly, there are cases where other products work, and they work exceptionally well. I can think of two customers off the top of my head that use a burned dolomite product in the slag line and get exceptional life with it, and they do that at equivalent cost to the MCBs.

The interesting thing about a dolomite product in that application -- I actually witnessed this. I had a customer do this for me. He deliberately damaged his lining, and then it went back around, and he tapped the furnace into it again, and, through proper manipulation and control of his slag, they were actually able to repair the lining. Even at the end of the processing, they brought it back, and

it was indistinguishable.

They had gone from having a serious cut in the refractory -- its thickness was compromised -- they were actually able to repair it, and there are customers who do quite well with that. If you're interested in exactly who they are, if you would like to contact them, we can do that in the post-brief.

There are also instances where carbon might be detrimental to the process, where noncarbon-bearing products, regardless of performance, are dictated by the needs of the manufacturer in order to get the carbon levels in the steel where they want. In most cases, the carbon is beneficial, but it can actually be a tramp element. It could be a detriment in the case of making low-carbon steels or making stainless steels.

So, to generalize, to paint these things with a broad brush, I think, doesn't do service to the amount of variety there is in the steel-making process. You're well-versed in steel. I think you've got a sense of that, that it's not a cookie cutter type of thing, and there are other products that, in the right application, would work, but certainly, by and large, the vast majority of ladles today run the MCBs.

MR. FETZER: I don't profess to be an expert in steel, just more of an expert than in MCBs. It's all relative.

MR. CONRAD: By the end of this, that may change.

MR. FETZER: We'll see. I appreciate that.

Mr. Stein, do you have any thoughts on substitutes?

MR. BRIAN STEIN: In general, I agree with everything that Mr. Conrad had stated. Let's face it, MCBs were invented by the Japanese in the mid-seventies. We made about 100 years of steel making before MCBs existed.

So, yes, there are alternatives. Are they better than MCBs? Maybe not, but there are certainly alternatives. So, in general, MCB is the best choice but not the only choice.

MR. FETZER: One thing, if you can give me a sense, and this can be in post-conference, of what percent this might be. Is this sort of maybe five percent of, you know, that could use this as a substitute of applications for MCBs or 10 percent or half, or is it a very niche type of thing? If you could give me some kind of rough estimate, that would be great.

MR. CONRAD: We would be happy to do that.

MR. FETZER: Okay. Thanks. We've covered demand, price products.

Also, I asked Petitioners this morning about data on raw material costs, if there is any public data out there that may be providing the same thing, I would appreciate that, again, to get a trend, to get a sense of how that's changing and how that's going to affect our data.

One last question for Mr. Joseph Stein. You made a comment on the lost sales about asking about the integrated, checking whether the purchasers were integrated mills or electric arc furnaces, and I guess I was thinking about it. When we asked them these questions, they know, and they are answering within that context. So is it important for us to actually say these Respondents are, you know -- I'm just trying to get a sense of that because my sense was, I think what you were bringing up was that the integrated mills basically stopped, so that might be explaining why the business was lost more than not, but they are going to know that when they respond, too.

It might be important, if we don't get a response from them, if we could identify them that way, but other than that, is there any other reason to

be able to segment them that way that you can see?

MR. JOSEPH STEIN: I think you don't understand what's happening in the marketplace if you don't segment the market into those two types of steel mills.

Then the next issue is, in our case, for example, we have, let's say, 10 top customers. They are high-quality customers. In a downturn, are they more likely to run based on their product and the demand for that type of steel or not?

So for each company, whether they are gaining sales or losing sales, you have to look at their customer base, and, in addition to the customer base, you have to look at whether those are integrated mills or electric furnace mills. S&S sells primarily to electric furnace shops, the best ones, and they run fairly well, even in the downturn.

If a company has a majority or a major share of their business in, let's say, financially unstable steel mills or integrated mills that shut down disproportionately during the recession, that would explain a loss of sales volume. So I'm only pointing out, that has to be looked at. You won't understand it until you look at that, customer by customer, and segment that market.

MR. FETZER: Okay. I appreciate that. Yes, Mr. Stein?

MR. BRIAN STEIN: Just additionally, when you look at those two market segments, integrated steel versus the recyclers, or the electric furnace steel mills, in this downturn, especially since automotive was hit so hard, it's the integrated mills that supply automotive, so they were most likely to shut down their capacity. Minimills making structural steels, rebar, those type of things, hopefully, will be picking up with stimulus.

So it's important to note, if you had a lot of business in the integrated mills that serviced automotive, you were in trouble. Some of them are coming back online now, which is a good sign, but not all of them. So the biggest hit was with integrated mills, and they are a big consumer of MCBs.

MR. FETZER: Okay. Thank you.

I guess I was going to go until somebody pulled the fire alarm, but I think I'll stop there, but I appreciate your answers. It's been very helpful for me. I'm surprised you haven't thought of it by now, Jim.

This is really helpful in terms of the information we have to present to the Commission and

to the Commission itself, so I'm looking forward to your responses in the post-conference, and I appreciate all of your candid responses during this period of questioning. Thanks. No further questions.

MR. ASCIENZO: Thank you very much. We turn to Mr. Yost, the auditor.

MR. YOST: I would like to join Mr. Fetzer in thanking you all for your appearance, and I know that many of you have come a long distance for the staff conference, and I would like to just say, I have no questions. Thank you very much.

MR. ASCIENZO: Then we'll turn to Mr. DeSapio, the industry analyst.

MR. DeSAPIO: There was mention during the testimony regarding MCB produced in and exported from Brazil and India. Any information regarding names of producers and capacity in these countries or other nonsubject countries would be greatly appreciated, and that's all I have.

MR. ASCIENZO: Thank you. Ms. Koscielski?

MS. KOSCIELSKI: Thank you. Mr. Stein, you mentioned earlier that some of the bricks that are refractory brick, the MCB that's being produced, you could use lower-grade raw materials as opposed to some other materials that are being used by the petitioning

company. Maybe I'm confused, but I thought, to my understanding, if you used a lower grade, maybe they are not as durable in the ladle.

MS. KOSCIELSKI: That's a two-phased answer. One was dealing in what we described as "superior production techniques," the use of the friction press. Since the mag carbon brick MCB is predominantly 10 to 15 to 25 percent carbon by weight, and you know graphite is 50 percent carbon by volume, it's imperative that that product be pressed at very high density. Friction presses can do that. The Japanese continue to do that, and they are the ones who invented the product.

It is a technically superior product by having those high densities and low porosities, and you can successfully compete with a higher-cost, higher-grade raw material brick with superior technology, so that's in one respect.

In the second respect, we can compete in different shapes. As I described, that shape is under a tremendous amount of stress in these expansions. They crack. They get penetrated. They don't last as long. That was developed when there were big brick teams laying brick every day. That doesn't happen. It's every second day now. But by changing the shape

of the product and being smart about where the stresses are in the ladle, you can improve performance and not necessarily use such a high-cost raw material by shape technology.

MS. KOSCIELSKI: So the shape and the density of the brick --

MR. BRIAN STEIN: Correct. Those two, in combination, you can outperform something that, in theory, has better raw material.

MR. CONRAD: Just to take that a little bit farther, we need to be careful on how we define "purity" and "quality." For instance, I might have a 95-percent-pure electrofused magnesite grain that will outperform a 98-percent pure, what we call a "dead burned" or a "centered" magnesite that has porosity, and this came up earlier. The grain itself has holes in it. It's like a sponge, and these elements from the steel-making process that try to get in and dissolve that grain have more of an opportunity.

So we need to be careful when we talk about purity that we're also talking about the form that it exists in. Purity alone isn't necessarily indicative of quality. I can have a much lower porosity with a lower-purity brick and get a better result than I could if I had the expense into a higher-purity grain

that has more porosity.

The other thing, the graphite levels; the graphite is in there actually to repel these bad actors, these other elements, that are trying to dissolve the brick and try to erode it. I can vary that graphite content dramatically, but when I do that, I change the behavior, I change the properties, of the brick. Increasing the graphite doesn't necessarily make it perform better in a certain application. That might actually be the wrong way to go.

So we need to be very careful when we generalize about brick qualities. Like everything else, it's much more complicated than it might appear on the surface.

If you've got specific questions, or if I can assist you in any way with that, feel free to let me know.

MR. ASCIENZO: Go ahead

MS. KOSCIELSKI: Thank you. I guess my other question is, because of the comment earlier about steel production being down, and then earlier the panel had said that some refractory bricks are doing well on the market right now, what's anyone's perception of that? Are there other refractory bricks

other than MCB that are doing well in the market right now that are servicing this industry?

MR. BRIAN STEIN: From our experience, when you say they are "doing well," do you mean financially or in performance?

Typically, in a downturn in the steel industry, the 24/7 operation becomes three days a week, no longer seven days. That is detrimental to the entire refractory in that steel plant because of thermal cycling, heating up, cooling down. Refractory bricks like to become hot and stay hot. That's when they perform at their peak.

Overall, from our limited scope, I don't see one product performing better than any other. From our experience, and we are very close with the Chinese market, not only the refractory market but the steel industry, I heard some things this morning about what if the U.S. comes out of the recession first, as it might?

Well, I beg to differ. I think China is already out of the recession. Their steel industry is at 90-percent capacity currently, on target for 530 million tons this year. That's 10 times higher than the current output in the United States.

The Chinese refractory markets are

responding. Prices are going up. It's been such a trying time because China is dictating raw material prices in the world, without a doubt, and that's where we need to look. The steel industry in China is booming, or it's booming again. It had a slight dip. Not only is that country just expanding beyond belief, but their stimulus package has been effective. It's started to kick start things as well.

When we look at the price of raw materials, every time we worry about raw material prices, it's mainly because China is using extremely high amounts of them. Iron ore price in the market in the steel industry is going through the roof because China is using it all. Ocean freight to the United States goes up and down with the amount of boats China is absorbing in bulk freight.

A lot of things are dictated by the country of China right now, not necessarily the United States. So, like I said, their steel industry is at 10 times the capacity running of the United States right now, and the Chinese refractory market is responding. Their plants are filling up.

MS. LEVINSON: I just want to interject something real quickly. Dr. Magrath kept saying, if the United States is the first to get out of the

recession, and I'm certainly not an economist, but I do recall reading in the Washington Post that economists say that France and Germany are officially no longer in a recession and that China is close behind, so I think Mr. Stein is onto something.

MR. CONRAD: Just to build on what Brian was saying, I've actually received communication from three Chinese producers who have said, "No, thank you," to complying with the request, that they think this is a foregone conclusion. They see no benefit to spending the time or the money to comply with this, and they are getting back to a red-hot domestic market, and rather than deal with this, they would just as soon sell domestically. So we stand to lose potential supply, from Fedmet's perspective, than we would lose competition.

MS. KOSCIELSKI: Thank you. That's all the questions I have.

MR. ASCIENZO: Thank you very much. Before I turn the microphone over to Mr. McClure, Mr. Conrad, I just want to make sure, when you say "comply with this," you mean fill out the questionnaires for this.

MR. CONRAD: That's exactly what I meant.

MR. ASCIENZO: Okay. Thank you.

MS. LEVINSON: I think he means more than

that, actually, participating in the entire antidumping investigation.

MR. ASCIENZO: That's what I meant, yes. Thank you very much. Mr. McClure, sorry.

MR. McCLURE: Jim McClure, Office of Investigations. In response to that, that's nice for them to say that, but, as I've said over the years, we're only as good as the data we get, and it is in their interest. Make no mistake about that, and all of these people who are here on a daily basis understand that. If you really want us to fully understand your arguments, we have to have the best data we can get, and I urge everyone around the table, get on your suppliers and have them respond.

We've gotten, as Ms. Mendoza said, we've gotten a pretty good response for this early in a preliminary, but that's -- make that point.

I've only got one question. It gets back to the initial comments on the use of the hydraulic press process as opposed to the friction process. That was all in the context of Resco. Do the other U.S. producers, do they all use the hydraulic press process, or does anybody use the friction?

MR. CONRAD: I can only speak to my experience with a domestic producer, which is now ten-

plus years' old, but they were moving toward more and more use of the hydraulic press, in some cases, even with robotic attachments, and the primary goal there wasn't to improve quality; it was to eliminate workers. They were trying to modernize, robotize the process to try to get rid of people, not necessarily to improve product quality.

MR. McCLURE: Mr. Stein and Mr. Stein?

MR. JOSEPH STEIN: I can advise that, up to 1994, when General Refractories was sold to A.P. Green, which now became part of ANH, let's say, early in the eighties, we switched to the friction screw presses, and we would not have continued in business if we had not, and we used them until the factory was shut down.

MR. BRIAN STEIN: Just to add, with my time with RHI, the Europeans, the Austrians generally believed in productivity and less manpower, so they would compromise, but during my time there, they did invest in a gigantic friction press to get the properties of certain bricks they felt it was necessary to have, and they installed that in their plant in Germany.

MR. McCLURE: And your time with them was what, in what years?

MR. BRIAN STEIN: 1988 to '98.

MR. McCLURE: Okay. Fine. Thank you. I want to thank, as I did the panel this morning. This is a relatively new product for us, and you guys have given a very useful presentation that, hopefully, we will pass along to the Commission, and, once again, you know, we're only as good as the information we get, so please help us out. Thank you.

MR. ASCIENZO: Thank you very much. I just have a couple of follow-up questions.

There was discussion on how we should follow up questions with the integrated producers versus the electric arc producers. Do we have a sense for what the percentage of production are by each of these types? Is it 50/50, 40/60?

MR. JOSEPH STEIN: It's public knowledge, and we can get that out of weekly reports, from the AIST reports, with no problem at all.

MR. BRIAN STEIN: Estimates would be it's leaning 60/40 in the electric furnace steel making versus integrated.

MR. ASCIENZO: Thank you very much. This is, I think, primarily for Mr. Conrad, but, anyone else, feel free to jump in.

Mr. Conrad, you pointed out, or in your

point of view, price is not the only issue; it's the total cost of ownership, and that all makes sense. But is there any way to measure that, and, more specifically, when you're trying to sell a product, your HCBs to a customer as opposed to someone else's, can you say, you know, "Our cost will be a dollar a ton or 75 cents a ton," or however you measure it. I don't know how that's measured, but is there any way you've measured that? I'll let you speak first.

MR. CONRAD: It's actually a very straightforward way to calculate that. You have a ladle, for example, and you know how many times it gets used. You know the capacity of that ladle, and the customer actually tracks the throughput of steel. As part of their process for their own finances, they need to know their own throughput.

So, in our case, if we were supplying the lining, we would know the price. We would know the total number of pieces because we were on site, and we actually physically counted them, and then we would know the throughput. So it's actually just the total dollars divided by the tons. It's a very straightforward calculation.

Now, that's assuming you have the whole thing. You could do it by parts. I'm not aware of

any customer that looks at specifically their cost per ton for the slag line or for the bottom or for some other part. They are generally looking at the overall picture, and if they have multiple suppliers, they generally don't share that information. They will themselves compile that total lining cost and then do the math, but it is a very straightforward calculation to do. Did that help?

MR. ASCIENZO: I would invite you, in your post-conference brief, to give us any specific examples of your total costs, and I invite the Petitioners to do the same thing. So I don't know if it would be apples-to-apples, but anything you can give us that actually quantifies this total cost of ownership would be very much appreciated. Sorry?

MR. CONRAD: Again, we need to be careful with "total." Labor is very rarely incorporated into that, so we talk about the total cost, but energy, labor -- typically, a customer won't give you the benefit of any reduction in that regard; they simply do it on the product that you're selling and how it performs. So we need to be careful when we talk about the total cost of ownership. This would not be the total. This would be the contribution of the refractory to the total cost.

MR. ASCIENZO: Right, and I invite the parties, whatever data you give us, make it as clear as possible what's in that data and what's not in that data. I don't know if it will be apples-to-apples in the end, but it would be nice if it could be. Thank you.

That's the end of my questions. Do we have any follow-up questions?

With that, I do want to say, there is learned counsel here, and kudos to them -- they have done a fine job, but I just do want to say that I have rarely seen a group of industry witnesses who have the technical expertise and the sales knowledge. It's really impressive. You've done a good job assembling this group of expert witnesses, and, with that, I thank you very much again, and we will break for about five minutes -- is that right? -- before we have closing remarks. Is that okay? Thank you very much.

(Off the record at 2:30 p.m.)

MR. ASCIENZO: With that, you may start when you're ready.

MS. MAZARD: Thank you very much, Mr. Ascienzo and all members of the staff, or your attentiveness and excellent questions to both parties.

I would first like to note that Commerce

initiated all three of these investigations earlier today and would also like to state for the record that we received letters of support from both Senators Casey and Specter in this matter.

To state it simply, MCB cannot be differentiated on anything besides price, price, and price. The Chinese and Mexicans provide the U.S. industry with low-priced imports every opportunity they can, and we need in order to compete.

The question for the Petitioner becomes, how long can a domestic industry survive if these lower-priced imports continue to expand into the U.S. market and capture more and more import share? Although these imports have been around for a while, Resco simply did not possess the level of industry support needed to bring a petition. For years, the largest domestic producers were controlled, in one way or another, by RHI, and, in fact, until last year, ANH finally severed its ties from this company.

Despite Respondents' statement that it found it highly curious that ANH did not support the petition, the staff will see in the questionnaire responses that perhaps ANH suffered the most, and their level of lost sales may even surpass ours.

Petitioner cannot even believe that

Respondents even stated that Resco is not engaged in cost-cutting strategies. In fact, Resco took extensive cost-cutting measures, as explained in the petition and in our questionnaire responses, and even submitted additional data showing the staff how the company's P&L would have looked like had it not taken these extreme measures just to stay open.

Petitioner wishes to point out to the staff that it received support for this petition from other producers, like LWB, who only sell to EAS, and they also provided a large number of examples of lost sales in their QR.

Hence, Respondents' assertions that Resco lost sales because it sells to BOS should be dismissed. The staff need only look at the lost sales examples that Resco provided to see that our examples cross all applications: BOF, EAF, and ladles. In fact, the majority of our lost sales were to EAFs, and only five percent of our business is to the BOF category.

Despite Respondents' assertions that there is no evidence of price suppression, you will see, in the questionnaire responses, there is clear evidence of underselling in the subject investigation. In fact, the level of underselling is quite astounding,

given the transportation and shipping costs that need to be undertaken to ship these products to the United States from China and Mexico.

The Respondents asserted in its opening that the recession and the decline in the demand from the steel industry is the sole cause of Petitioner's injury, and the ITC ought to consider these conditions of competition when making its decision as to whether imports caused, and threaten to cause, material injury to the domestic industry.

In recent ITC decisions, the Commission found injury and threat to the domestic industry who brought a case in the midst of a recession, although Petitioners note that they possessed higher net income and operating income ratios than the domestic industry in this investigation.

Petitioner wishes to note to the Commission staff that the recession not be just one condition of competition which it examines. Unfortunately for the Petitioner, each time Petitioner went into the market, it lost sales before and after the recession for one reason and one reason alone: the low and dumped import prices that the foreign producers and importers offered in this market.

Counsel for S&S Intersource asserted until

recently it never encountered the Petitioner in the market, although Resco has been in this market for a long time. Her statement is not surprising, given the low prices at which S&S Intersource sells dumped MCB imports from China. Resco could not meet S&S Intersources's low prices until it began to import MCB from China in order to compete.

Unfortunately, even with imported product, Resco cannot match the sales prices offered by these importers, even though they are down the road from the customers in many instances.

That being said, on the brick shapes we brought today, it is just an example. Resco makes an equal amount of many keys, straights, wedges, and arches referred to by Mr. Brian Stein.

We want to note that all value customers also want low prices. Price is part of value, and it's an important factor in all sales. Please do not walk away with the impression that those who seek value also do not want lower prices.

In addition, let me be clear that Resco is not fat or bloated, as evidenced by the witnesses we brought, nor is it using outdated friction presses instead of hydraulic presses. All domestic producer use hydraulic presses. The majority of the EU

producers, including RHI-AG, use hydraulic presses. Magnesita in Brazil uses hydraulic presses. Refmex uses hydraulic presses.

Friction pressing is simply a Japanese or Chinese choice.

I also want to clarify our position on R&D. We want to innovate, but we simply do not have the resources to do so. As you can see from our QR and in our petition, our investment in this area decline each year because of low-priced imports.

With respect to export restraints, we want to note that magnesium metal was mentioned in the WTO petition, not magnesite specifically. Nevertheless, Ms. Levinson proves our point with respect to export restraints. The Chinese producers get cheap magnesia, and U.S. producers are price gouged.

You will see in our post-conference briefs, nevertheless, that we import raw materials across all ranges of magnesia, not some allegedly superior raw material.

In summary, as the staff knows, the domestic industry does not have to have increasing imports or market share to be injured by reason of imports. That being said, many indicators did go down over the whole period. For example, profits went down from 2007 to

2008 and again in 2009.

As seen in some of the ITC's recent cases, we do not need to have losses for an affirmative determination.

We also want to note to the staff that LWB provided data with respect to imports of MCB in its questionnaire response, and I want to conclude by noting that only two of what could be hundreds of Chinese producers successfully reduced its duty rate to zero in the EU. Hence, even if France and Germany jump out of the recession before we do, that market is effectively protected from the Chinese.

As such, we respectfully request that the ITC vote in the affirmative and protect the domestic industry before it becomes extinct. Again, thank you very much for your time.

MR. ASCIENZO: Thank you very much.

MS. MENDOZA: Frankly, I'm pretty shocked to hear Ms. Mazard say that it' price, price, price after we heard her panel this morning discuss all of the complicated aspects of the products and the differentiation between them and the angles and the shapes and the formulations and all of the issues about service, et cetera.

It's clearly not just about price, price,

price, and her own witnesses have testified to that, and, moreover, the data in the record doesn't support that it's price, price, price. What we actually saw in the record is that the U.S. industry has increased their market share over the period, they have increased their prices, and their cost-to-sales ratio has remained stable.

So what is the injury that they are alleging here? It seems to boil down to two things. Number one, you've got compare the POI to 2000. If you compare those periods, you can see that we've been injured, but I didn't hear any legal arguments as to why the Commission should depart from its normal POI period in this case.

Their only other second argument was to focus solely on first-quarter-of-2009 data, but as we've explained, and as their witnesses have testified, that was a period in which the steel industry experienced a stunning decline, and it is clear that what happened in this industry is directly tied to that.

I would also note that we're really talking about industry injury here. We have to be talking about industry injury, not just injury to Resco, and I think it's noteworthy that none of the other members

of the U.S. industry are here today, and I think it's going to be interesting to see what they say with respect to whether there have been any effects from imports on their sales volumes or prices.

Finally, on threat, the reality is that imports have gone down, imports from China have gone down, very significantly in the first half of 2009, even taking into account the lag times that, of course, occur with imports.

I think, finally, I would just like to say that one of the issues that came up in PC Strand for the Commission on threat was the question of, what's going to happen when the industry starts to recover? I think that we've answered that question today in two ways. We've said, look at the record data. Look what happened when demand surged in the U.S. market in 2007 and 2007. You did not see imports surge. You can anticipate that there will not be a surge in imports from China once the economy recovers, based on that data.

Secondly, we've heard about what's going on in China, and we intend to provide more information in our post-conference brief with respect to demand in China and how the steel industry in China has recovered significantly and much more quickly than the

industry in the United States.

Given that these companies that operate in China are mostly multinational companies which are owned outside of China and run in various jurisdictions, I think that we can expect that they are going to make smart decisions about allocating their production to demand in China where it's obviously recovering very quickly. Thank you.

MR. ASCIENZO: On behalf of the Commission and the staff, I want to thank the witnesses who came here today, as well as counsel, for helping us gain a better understanding of this product and the conditions of competition in this industry.

Before concluding, let me mention a few key dates to keep in mind. The deadline for submission of corrections to the transcript and for briefs in the investigations is Monday, August 24th. If briefs contain business-proprietary information, a public version is due on August 25th.

The Commission has tentatively scheduled its vote on the investigations for September 11th. It will report its determinations to the Secretary of Commerce on September 14th. Commissioners' opinions will be transmitted to Commerce on September 21st. Thank you for coming. This conference is adjourned.

(Whereupon, at 2:49 p.m., the preliminary conference was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Magnesia Carbon Bricks

INVESTIGATION NO.: 701-TA-468 & 731-TA-1166-1167

HEARING DATE: August 19, 2009

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: August 19, 2009

SIGNED: Raymond M. Vetter
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Tammy Brodsky
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter