UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
NI-RESIST PISTON INSERTS	)	701-TA-460-461
FROM ARGENTINA AND KOREA	)	(Preliminary)

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Tuesday,
February 17, 2009

Courtroom B
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:34 a.m., at the United States International Trade Commission, JOHN ASCIENZO, Acting Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

JOHN ASCIENZO, DIRECTOR OF INVESTIGATIONS
GEORGE DEYMAN, SUPERVISORY INVESTIGATOR
JOSHUA KAPLAN, INVESTIGATOR
MARC BERNSTEIN, ATTORNEY/ADVISOR
IOANA MIC, ECONOMIST
DAVID BOYLAND, AUDITOR
DEBORAH McNAY, INDUSTRY ANALYST

In Support of the Imposition of Countervailing Duties:

On behalf of Quaker City Castings:

JOSEPH J. KORFF, President, Quaker City Castings

GEOFFREY D. KORFF, Esquire
Liverpool, New York

APPEARANCES: (Cont'd.)

In Opposition to the Imposition of Countervailing Duties:

On behalf of Karl Schmidt Unisia, Inc.:

ROBERT G. TURCOTT, Vice President and General Counsel, Karl Schmidt Unisia, Inc.

JOEL K. SIMON, Esquire
CHRISTOPHER M. KANE, Esquire
Serko Simon Gluck & Kane LLP
New York, New York

On behalf of Federal-Mogul Corporation:

JAMES A. CZERWINSKI, Purchasing Manager-Global Purchasing, Federal-Mogul Corporation

SYDNEY H. MINTZER, Esquire
JEFFERY C. LOWE, Esquire
DUANE W. LAYTON, Esquire
Mayer Brown LLP
Washington, D.C.

I N D E X

P R O C E E D I N G S

(9:34 a.m.)

MR. ASCIENZO: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of countervailing duty investigation Nos. 701-TA-460 and 461 concerning imports of Nickel Resist Piston Inserts From Argentina and Korea.

My name is John Ascienzo, and I am the Commission's Acting Director of Investigations, and I will preside at this conference. Among those present from the Commission staff on my far right are Deb McNay, the industry analyst; George Deyman, the supervisory investigator; Josh Kaplan, the investigator; Marc Bernstein, the attorney/advisor; Ioana Mic, the economist; and David Boyland, the auditor.

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

Are there any questions?

(No response.)

MR. ASCIENZO: If not, welcome, Mr. Korff. Proceed with your opening statement.

MR. G. KORFF: Hello? Hello. My name is Geoffrey Korff, and I'm here on behalf of domestic producer Quaker City Castings.

I'd like to start by thanking members of the Commission for hosting us today and also to the Respondents who have joined us today. It is my hope that we come away from the table today understanding what is really at stake for everyone involved.

I could sit here for the remainder of my opening statement and recite several times that the threat of injury with regard to this case is imminent and that the potential for material injury continues to loom now and for throughout the foreseeable future, but I'm going to try not to be so formulaic. Instead, I'm going to verbalize what I think most of us at this table are thinking about this case, and hopefully we'll walk away with no misconceptions.

For Quaker City Castings, what is at stake is the continued production of a longstanding manufacturing business that was at one time large enough to support several companies throughout the United States, but now seems all but ready to entirely

collapse in this country. I am, of course, referring to the production of Ni-resist piston inserts.

Should some relief from the influx of foreign subsidized merchandise not be forthcoming for Quaker City Castings, production of this product will certainly and imminently cease and, like many products before it, will be gone from our country. What has happened over the past five years or so has been the near complete disappearance from Ni-resist inserts from within the United States.

The two primary purchasers of this product, Federal-Mogul and Karl Schmidt Unisia, are here today, and, instead of purchasing this product from Quaker City, Karl Schmidt is purchasing its Ni-resist inserts from a company in Argentina, and Federal-Mogul has been purchasing its Ni-resist inserts from a company in South Korea.

During this five year period approximately, Quaker City Castings' domestic and overall sales of this product have experienced a precipitous dropoff both in absolute terms and in terms of its overall domestic share as well. It's quite clear to us where the business for this product is going, and we hope by the end of this conference that it will be clear to everyone else involved.

The petition that we submitted for the Respondents threatens for them a favorable price differential that they receive from the two countries that I've mentioned. We understand what is at stake for them with regard to this investigation. We hope that they will understand what is at stake for us.

Quaker City Castings employs about a hundred people and comes to you today from a city that is about 12,000 people. The balance of trade that is not avoidable, meaning factors which include labor we cannot avoid; subsidies we can avoid, and that is what we hope to do so here.

Once again I will thank the Commission for their time, I thank the Respondents, and we hope the conference runs smoothly for all involved. Thanks very much.

MR. ASCIENZO: Thank you, Mr. Korff.

Mr. Kane? Any open microphone is fine.

MR. KANE: Good morning. For the record, my name is Christopher M. Kane. I'm a partner in the law firm Simon Gluck & Kane. I'm here this morning --

MR. ASCIENZO: I'm sorry. Could you pull that a little bit closer?

MR. KANE: Sure.

MR. ASCIENZO: Sorry.

MR. KANE: Once again, for the record my name is Christopher M. Kane. I'm a partner in the law firm Simon Gluck & Kane.

I'm here with my partner, Joel Simon, and from Karl Schmidt Unisia, Inc., Vice President and General Counsel, Robert G. Turcott. We will be sharing our time with Federal-Mogul as we are on the same side of the issue.

MR. LOWE: Good morning. My name is Jeffery C. Lowe. I'm with the law firm of Mayer Brown.

I'm here today representing Federal-Mogul Corporation, and I am accompanied by my colleagues, Sydney Mintzer and Duane Layton, both attorneys with Mayer Brown also, and with us today is Mr. James Czerwinski with Federal-Mogul. He is the purchasing manager with the company.

As Mr. Kane mentioned, we're going to be sharing our time. I hadn't planned on making an introductory set of remarks, so with that we'll just begin. He's going to lead off.

MR. ASCIENZO: If you want it to be the opening statement, that's fine.

MR. KANE: I'll go right into it then.

MR. ASCIENZO: No. I'm sorry. Off the record.

(Discussion held off the record.)

MR. ASCIENZO: You may proceed when you're ready.

MR. J. KORFF: Thank you. Good morning. Thank you for having us today. My name is Joseph Korff. I'm president of Korff Holdings, LLC, which does business as Quaker City Castings.

I'm a graduate of Lehigh University with a Bachelor's degree in metallurgical engineering. I've been involved in the steel industry right out of college and in college and in the foundry business for 40 years. I've carried titles such as process engineer, works manager, plant manager, technical service vice president, vice president of operations and over many years now president.

Quaker City Castings is a manufacturing company in Salem, Ohio. It's been around for about 45 years. My original contact with them is I became president of Quaker City Castings in 1987, and I was president from 1987 to 1992.

During that period of time, we produced Ni-resist piston inserts for primarily two companies domestically, and that was Zollner Corporation at the time and Bohn Aluminum, along with another sister company, that turned out to be a sister company who

originally was a competitor, Ring Carriers in Indiana.

I left the company in 1992, after developing the Ni-resist business to ship overseas to many different countries. We shipped into France, Germany, Mexico and England, as well as had the entire United States market at that time with a few exceptions. Mahle from Brazil brought up inserts from Brazil, Mahle from Morristown, Tennessee, and the predecessor of the Karl Schmidt plant brought in inserts from Argentina.

In my absence at Quaker City Castings from 1992 through 2004, Quaker City had a tremendous expansion in the Ni-resist business and at one time in the mid '90s had a business that approached $10 million a year and employed 55 people just in the Ni-resist business. We did about eight million rings or inserts a year, something like four million pounds of shipped product.

The market started to deteriorate for Quaker City Castings, as I reviewed the records, in about 1997-1998 to the point now where it's a nonexisting business, practically nonexisting.

Ni-resist inserts are on the table. They're rings that we cast as centrifugal tubes, and that's liquid metal poured into a spinning die. It

solidifies, and the tube is then machined on high speed machines into various rings, various insert shapes, three of which are there, and a sample of a ring, a Ni-resist insert in a piston, a sliced piston, is also available on the table.

The Ni-resist inserts in size can vary from something very small, a couple inches or three inches in diameter, up to something very large for marine engines, maybe 12, 14 inches in diameter. We have never not quoted any Ni-resist ring we were ever asked to quote. We've always put a price on every one we were asked to quote by any industry, any company we've ever done business with in this market.

Quaker City Castings during the '90s was a very successful business. Then it came on hard times. One of the reasons for the hard time was the decline of the Ni-resist insert business and then the subsequent bankruptcy of Federal-Mogul. Quaker had a very large receivable with Federal-Mogul that was worth zero at the time of their bankruptcy.

That put Quaker City Castings into bankruptcy itself in 2003, and I purchased Quaker out of bankruptcy in 2004 at a bankruptcy auction in Cleveland. At the time I purchased Quaker, we had approximately 75 people, and probably about 15, 18

were involved in the Ni-resist business, which at that point in time our last remaining customer was Federal-Mogul.

Mahle in Morristown, Tennessee, was a very smart part of us, and then Karl Schmidt was a very sporadic buyer. We did in subsequent years actually sell additional product into Karl Schmidt in their plant, and we still maintain one export job we send to Brazil only because it's a son-of-a-gun to produce, and nobody wants to fool with it except us. We have the machinery to make it -- it's a double ring with pins -- and that's still the last job we do for the Ni-resist business.

We also in our business -- that's not our only business. We produce sand castings, and that's our primary business now, in iron and steel, stainless steels, and we're trying to develop other centrifugal products.

We're trying to retail a cylinder liner line of products. We've trade named it EZ Slider, and we're selling it on the retail market. We're spending lots of money trying to develop it to maintain our use for our centrifugal capacity. It's a costly process to market. We've just really started to get some credit card orders on it. It took us a while to get

there, but it is not at this point a business that will utilize effectively the centrifugal capacity.

How I got involved in sitting here today is we had a very, very difficult time quoting price competitively against primarily the Argentinean company because Federal-Mogul was still a customer of ours, and when I got to research more -- and I spent a lot of time on the internet trying to understand the nature of the competition and looking through real old files that existed at the company from many, many years -- I discovered that the competitor was in fact a company in Argentina called Clorindo Appo.

I in my research found that in Argentina the people get subsidized food. They get subsidized gasoline. The electricity is subsidized. There is actual industrial parks where they were developed for nothing but export products and that there's a series of governmental programs that help people who primarily exist for exporting.

I set that kind of thought aside for a while, but when our business began to decline, and we were very competitive in what we do in our shop. Our people get fairly paid. They don't get UAW wages. Their fringe benefit packages are not exorbitant.

We have very efficient equipment, and when

we kept beating ourselves on the head trying to understand why it is that we can't come up with the numbers that seem to be the market for these things and I did my research I said we're kind of fighting against the government, and we're not fighting against the company.

As a result of that, I attempted to put a petition together by myself and worked with I think Meredith Rutherford for a while to do that and then realized the process is just entirely too daunting for me to do, so I basically waited for my son to graduate from law school and asked him to put it together for me, and which he did. That's how we're sitting here.

The daunting part of it for a company our size is that the law firms I contacted in Washington stated that it would be somewhere between $100,000 and $200,000 to put this process together, and all I could think of is we had a dying business, and it was just completely unaffordable to do, but having some in-house counsel, you might say, it made it a possibility.

The prior owners of Quaker before bankruptcy invested substantial sums in the Ni-resist area. They actually purchased a new building for the machine shop, installed several new computer controlled

turning-boring centers that are as fast as anything in the world.

Since my period there, we purchased three melting furnaces that were identical to our existing melting furnaces. They happened to be on the market for the right price. We have gone after the centrifugal business to try to be players. We're the last company in the United States that actually makes this product. When we discontinue making it, there will be no one.

About three years ago there was some kind of shipping disruption because the phones started to ring, and we started to get orders from everybody we haven't heard from in a long time. We didn't understand it. It was apparently because there was a shipping disruption.

I don't know if it was a delay from the foreign producers or an actual transportation issue, but for two or three months we were getting -- everybody loved us again, and then as soon as that ended they didn't.

I don't think I have much more to say. We have jobs in jeopardy. We have additional jobs in jeopardy. The employment now in that area is probably down to less than 20 people.

We're spending tremendous money trying to market a substitute product to find a particular niche, and we are finding strong competitive pressures now from overseas which we knew we'd go into, and we're trying to do retail sales where there's slightly more margin involved. We hope to be a player in that industry, but it takes time, and it won't be funded forever unless there's a payback for it.

I think in my mind the Ni-resist business shouldn't leave the United States entirely. It just shouldn't. I think it's forced to leave or may be forced to leave because of artificial benefits that exist in other manufacturers because they happen to be located in countries that support subsidies or support helping out their industry. I think our petition cites a number of those that we've discovered, and I'm sure in your files you have more that we've yet to discover.

I think I'm done. If you have questions later -- I don't know what the process is for questions -- then I'd be happy to answer any other questions you may have.

MR. ASCIENZO: Mr. Geoffrey Korff, were you going to make a presentation, or is that the end of your affirmative presentation?

MR. G. KORFF: No. That's the end of our affirmative presentation. I understood that there would be a Q&A session to follow.

MR. ASCIENZO: Yes, sir.

MR. G. KORFF: All right.

MR. ASCIENZO: Yes, sir. Before we start that, is it okay to pass your samples around?

MR. G. KORFF: Yes, please.

MR. ASCIENZO: Okay. We can do that. Thank you.

I think I'd like to start the questioning with the supervisory investigator, Mr. Deyman. Josh. I'm sorry. I think we'll start the questioning with the investigator, Mr. Kaplan.

MR. KAPLAN: Okay. Thank you both for coming here today. We appreciate your participation in our conference. My first question is I suppose for Joseph Korff.

Could you enlighten us a little bit about differences in production methods? Obviously you may not be aware of what foreign competition is doing, but from your knowledge and experience in this industry are you aware of any different production methods that perhaps would run an advantage to one particular company or another in the Ni-resist business?

MR. J. KORFF: There have been several ways to make Ni-resist piston inserts. I saw one in France a number of years ago when I visited. They made the inserts out of shell molds, which are resin-coated sand, and you blow the sand around a cavity and you heat it.

You blow it around a pattern and then you heat it and then the sand freezes or forms and you have the hollow cavity within the sand and then you pour metal and a sprue it's called, and the metal fills the cavity and creates a ring, which is subsequently machined.

I think people have attempted, and I don't believe that's a competitive process. I think it's too costly, and I don't think that exists anymore, although I don't know. I have no knowledge of whether or not it still is produced that way or not.

People tried them in other static cast ways and nonspinning dies where they're made in sand molds, and I think some very large inserts perhaps might be made still that way, but the bulk of everything I'm aware of is made centrifugally in a centrifugal casting and then machined into rings in various ways.

One of the things that happened a number of years ago in the industry is you used to be able to

machine these things using a lubricant called wet machining, and because of the bonding of the Ni-resist insert with the aluminum in the actual production of a piston the producers of the piston preferred dry machining of the insert, which meant no lubricant, which requires a different kind of a machining approach to it, which Quaker invested in.

During my tenure at Quaker in 1987 to 1992, we bought our first CNC machine that was capable of dry machining inserts very, very quickly and very accurately.

MR. KAPLAN: Okay. Thank you for that, Mr. Korff.

As kind of a follow-up to that, shifting from perhaps how the Ni-resist inserts are made to what the actual product is like, would you say that one Ni-resist insert made by Quaker City Castings, to the best of your knowledge, would be comparable or very similar to one made by the other companies that you've referred to in your petition?

MR. J. KORFF: They would basically be indistinguishable.

MR. KAPLAN: Okay. Thank you.

MR. J. KORFF: I might add for many years we received quarterly quality surveys, quality reports

and delivery reports from say Federal-Mogul, and quarter after quarter it was 100 percent on time and 100 percent quality.

Very, very rarely did we ever have an issue with a quality issue or a delivery issue with them and very rarely with other companies as well.

MR. KAPLAN: Shifting a little bit to the past relationships between your company and the piston producers here in the United States, would you mind perhaps elaborating a little bit upon how the relationships changed over time or what sorts of communications were had?

If any of this is business proprietary it's fine for you all to provide it in the postconference brief, but just if you could perhaps share some more information on how your relationship was at the beginning, at the middle and at the end, kind of how things have transpired to end up where they are today?

MR. J. KORFF: I can only say at the beginning and at the end. I wasn't there for the middle at Quaker prior to its bankruptcy.

We aggressively marketed Ni-resist when I was there from 1987 to 1992, and from the records it looks like the company continued to aggressively market it, but had a tremendous falloff in volume

starting in about 1998.

There was a consolidation of the piston business as well. The manufacturers, some of the plants that we shipped to, were under three different owners during that period of time.

Some of the plants that we shipped to in England, I think one was Turner & Newell that turned into something else and then turned into Federal-Mogul and then they moved that out, so there was a consolidation, which would explain some of the decline of business, but the total demise of the business would not be explained that way.

The relationship was one of a supplier. There weren't a lot of service calls to them because the product went through their shop without any problem. Usually there's lots of service calls if you have a problematic product where you have to go and understand what the defects were, what the problems were with it, but this product was very nonproblematic so there wasn't a great deal of contact on a day-to-day basis for I would say a few years.

We did have a salesman that contacted them periodically, and we have a person in the foundry machine shop who was the contact person for the expediters or the buyers at the different companies

who talked to the companies on a pretty regular basis.

MR. G. KORFF: I would add that it's obvious to us where the business went.

During the period of time where the business for Quaker City Castings seemed to be declining, the only import data that is available to us based on the research we've done shows that during that same period the imports from Argentina and South Korea started to ramp up and that they were going to what we believe are the only two remaining major at least purchasers of Ni-resist in the U.S., which are Federal-Mogul and Karl Schmidt.

So we're certainly not guessing as to where the business went. We know exactly where it went. As sales of Quaker City Castings declined, sales from Argentina and South Korea increased quite significantly.

MR. J. KORFF: I want to add something to that. We know that the Mahle plant, M-A-H-L-E, in Morristown, Tennessee, makes pistons as well in large volumes, but we were advised probably within the last year or so that they no longer make diesel engine pistons.

I don't know if that's a true statement or not, but that's what someone at Mahle told us.

MR. KAPLAN: Thank you.

One kind of question. You had mentioned pricing there a little bit, and I believe my colleague, Ms. Mic, will touch on some more of the intricate pricing questions that we may have, but I did have one question, and this is pertaining to the cost of inputs.

To the extent that you can share this information that is publicly available, to what extent have fluctuations in metal prices affected the prices of your products there at QCC, the Ni-resist products?

MR. J. KORFF: Yes. Substantially. The primary driver of the metal, of the cost of the Ni-resist, is nickel. It's around 15 percent nickel and six and a half percent copper.

Nickel tends to be a volatile priced material in certain periods of time. It was very volatilely priced back in the '70s. It seemed to stabilize for a while during the '90s, and then it went absolutely berserk in 2006 and 2007. Now it's coming down somewhat in price, quite a lot in price actually.

So the price of an insert is composed of two components. One we call our base price, which is fixed at a certain metal market condition -- price of

nickel, price of copper, price of pig iron, price of manganese, price of chrome, all of those at a certain point in time -- and then we use a surcharge formula, actually two different ones.

One is actually more accurate. It's the one we use in-house. Another one we were asked to use by a customer that we agreed to adopt just when the metal market started to go crazy, and that's fixing it based on the London Metal Exchange nickel cash price and then adjusting the price monthly according to the London Metal Exchange.

The other formula we used incorporates all metallic materials, not just nickel, and it's more truly representative of costs. If the metal market goes up, what we call our surcharge goes up. If the metal market comes down, our surcharge comes down.

If the metal market went below the base price level of the metallic components then we would probably reduce our base price. It hasn't happened so I'm saying probably, but it hasn't happened.

MR. G. KORFF: And if I could also add? Sorry.

The cost of the metal inputs with regard to this product are not avoidable by anyone; not avoidable by a domestic producer, not avoidable by a

foreign producer. They're set by the London Metal Exchange, and these are the market prices for these inputs.

So the only way to reduce cost with regard to the metal inputs of this product is to receive help from the outside in the form of subsidies or something else, but the costs as far as the actual material inputs of this product are what they are, and regardless of where you manufacture this product the shifts in the metal market affect everyone equally.

MR. J. KORFF: I'm glad he mentioned that because it triggers a memory.

Several -- about maybe three -- years ago when we were wrestling with this idea of why our prices couldn't compete any longer and for a long time apparently couldn't compete one of the factors I was thinking is that are we buying our metals the best we can and so we did a broad study about calling different metal suppliers throughout the United States.

I even went on the internet and tried to find Ni-resist machining chips, which are a primary scrap metal if you can find them on the market. In the process of doing that I noticed the competitor in Argentina was also on internet sites. He's listed in

a Turkish site looking for Ni-resist inserts scrap.

I contacted a Russian supplier in St. Petersburg, Russia, who said he had Ni-resist scrap. It was surveyed. He sent samples to me. It was good quality material, but the price that he wanted for it was really no better when I factored in the shipping than the domestic price.

So I in my mind discounted that as a variable that anybody is going to buy better than we are because I did search the market for a cheaper source of raw materials, and we were buying it at about market price.

Sometimes we would buy -- for example, if we bought a load of Ni-resist scrap, which usually comes in the form of almost dust. It's a fine machining chip. We might purchase it. It could either be slightly above the contained nickel price on the London Metal Exchange or slightly below, but over a long period of time it tracks the London Metal Exchange price pretty well for the content of 15 percent of the scrap times whatever the London Metal Exchange is for a pound of nickel.

You've got to convert it from kilograms because they report it in metric tons, but it's a pretty good correlation. So my sense then is that we

were not noncompetitive in our ability to purchase the raw material.

MR. KAPLAN: Thank you. I have no further questions at this time.

MR. ASCIENZO: And with that we'll go to the attorney, Marc Bernstein.

MR. BERNSTEIN: Thank you. I'd also like to thank both of you for coming down to Washington to visit us and give your testimony.

Let me start off by asking you some basic information to the extent you know it about the ultimate use of the products containing these piston inserts.

According to the petition, all diesel engines that use aluminum pistons will require the subject piston inserts. In what type of equipment, to the extent you know, are diesel engines with aluminum pistons used?

MR. J. KORFF: Most over-the-road trucks will have an aluminum piston in it, Class A trucks, and they will all have Ni-resist inserts in them.

Heavy duty equipment such as might be produced by Caterpillar, John Deere, farm implement people, would have engines that would have aluminum pistons with Ni-resist insert.

Certain automobiles in Europe, even though they're not heavy duty diesels, have the Ni-resist inserts. I know we in previous times sold inserts to companies, to Alcan in Germany, which is not Alcan anymore, in Nuremberg and a company in France. They went both into I think a Peugeot diesel and a Mercedes diesel for automobiles.

But the bulk of all the diesel requirements in the United States for diesel, heavy duty diesel engines, require a Ni-resist insert, and of course the domestic -- there are very few domestic diesel engines for automobiles in the United States.

MR. BERNSTEIN: There's also marine use, is there not?

MR. J. KORFF: Yes. Marine engines, and there are some which we're discovering now, large compressors with aluminum pistons that require large inserts. We have found a couple companies that purchase those. Very small quantities, though.

You know, at one point Quaker was doing eight million of these inserts a year, and these other applications, the compressors, might be in the hundreds now rather than the thousands or tens of thousands.

MR. BERNSTEIN: Now, you just said that

there weren't many diesel engine manufacturers in the United States. I mean, is this something --

MR. J. KORFF: Diesel engine piston manufacturers.

MR. BERNSTEIN: Diesel engine piston manufacturers.

MR. J. KORFF: Correct.

MR. BERNSTEIN: Okay. Okay. Thank you. I'll go on to the next question.

I mean, to the extent you're familiar with -- well, are you familiar with trends and sort of how many trucks and heavy equipment that use these sort of diesel engines are sold?

MR. J. KORFF: Yes. Roughly, yes. It's declined now. We're in a period of recession, and that's declined.

It tends to spike up just before there's an emissions standard change in the United States, which will happen in 2010. About every three years the United States changes its emissions requirements for diesel engines, and all the buyers of the trucks load up before then.

If we tracked our business over a long period of time, we could plot the ramp up of the emissions, the correlation of the ramp up of our

business with the emissions standard.

MR. BERNSTEIN: When was the most recent previous spike?

MR. J. KORFF: Say it again?

MR. BERNSTEIN: You said that there was an increase in price every so often.

MR. J. KORFF: Yes. I don't have that information.

MR. BERNSTEIN: Okay. You don't have it? Okay.

MR. J. KORFF: I don't know that.

MR. BERNSTEIN: Thank you.

Are there diesel engines that don't use aluminum pistons?

MR. J. KORFF: Yes. There are some that use iron pistons. There are some that probably use steel, some a steel forged top with a different kind of skirt to it.

MR. BERNSTEIN: Okay.

MR. J. KORFF: Yes. There are some of those, yes.

MR. BERNSTEIN: Do any of these type of pistons -- would they contain Ni-resist piston inserts?

MR. J. KORFF: The steel or the iron?

MR. BERNSTEIN: The iron, yes. These types.

MR. J. KORFF: No, not to my knowledge.

MR. BERNSTEIN: All right. Do you have any familiarity with whether I guess the diesel engine manufacturers -- I mean the relative use over the last few years of aluminum pistons in engines as opposed to these nonaluminum pistons you've just listed?

MR. J. KORFF: I don't have any personal knowledge of that, no.

MR. BERNSTEIN: Thank you.

Let me ask you a few questions about your company. Your testimony was that you said: I purchased the company on a bankruptcy sale in 2004.

MR. J. KORFF: Correct.

MR. BERNSTEIN: According to the petition, Quaker City is owned by Korff Holdings, LLC, whose sole owner is your son, Jason Korff.

MR. J. KORFF: Yes.

MR. BERNSTEIN: Now, was there some intervening transaction between you and Jason Korff?

MR. J. KORFF: No. Jason is my son. He lives in our household. The company was purchased in his name.

He is technically the single member owner of the LLC. Korff Holdings has no input into the

business at all.

MR. BERNSTEIN: Okay. So you are responsible? You have the ultimate responsibility --

MR. J. KORFF: Yes.

MR. BERNSTEIN: -- for the business operations?

MR. J. KORFF: Uh-huh.

MR. BERNSTEIN: Are there any Korff family members other than you or Jason Korff who are directors or officers of Korff Holdings, LLC?

MR. J. KORFF: No. Jason is the single member.

MR. BERNSTEIN: Okay. This is a formality for the record so it's entirely clear. When you testified as to your son who put the petition together, I assume you were referring to Geoffrey Korff?

MR. J. KORFF: Geoffrey, yes.

MR. BERNSTEIN: Okay. Thank you. Let me follow up on some of the questions Mr. Kaplan asked about your sales efforts.

I gather from this, and feel free to correct me or elaborate, that you do have a sales operation out there. I think you characterized sales contacts vis-à-vis Ni-resist piston inserts as being periodic.

Is that a correct assessment?

MR. J. KORFF: We're asked from time to time to quote a package of Ni-resist part numbers, and during that period of time we'll quote it.

Our sales representative will visit the companies, talk to them on the phone, and periodically we've had a few sales representatives, one at a time, and basically when we've quoted we were told that our prices are substantially higher than what they're purchasing.

It's not quite the end of the conversation, but almost the end of the conversation.

MR. BERNSTEIN: Is there anything vis-à-vis how delivery fees are assessed in this business or shipping delays that might provide an advantage to a U.S. producer vis-à-vis the imports?

MR. J. KORFF: We would be quicker than the imports. I don't know what the pipeline is to get product in from Korea or Argentina, but it's not days. It's, you know, weeks or whatever.

I don't know. These gentlemen can maybe address that better than I can, but we would be quicker in delivery. They would have to have orders further out in their backlog to commit to product coming in from overseas.

In other words, if they asked us to produce something within about a 10-day period we'd do it. We traditionally have done that. Now they need to project out further in their scheduling to make sure their pipeline is full of product.

We still get calls. When they're short on something we do get a call to make a thousand pieces of this or 500 pieces of this because it didn't come in or they can't order those kinds of small quantities, and that does still happen.

MR. BERNSTEIN: Okay.

MR. J. KORFF: It probably happened as recently as, you know, two months ago.

MR. BERNSTEIN: Do you have a minimum quantity requirement for piston insert orders?

MR. J. KORFF: Five hundred is probably the lowest number that we can, you know, come up with, and what we've found is the bulk of the requirements were getting shorter and shorter quantities for some period of time. I don't know exactly the reasons.

MR. BERNSTEIN: You say both in your petition and in your prior testimony that you believe the price differential between your product and the imported product was somewhere in the nature of 30 to 40 percent.

MR. J. KORFF: We were led to believe that, yes.

MR. BERNSTEIN: Okay. Have you been told this by your purchasers?

MR. J. KORFF: It was information I received from our previous salesmen when we quoted a package, an entire -- many, many part numbers.

We just wanted to find out how close we were. Are we even in the ballpark, you know? The answer was you're pretty far out.

MR. BERNSTEIN: Okay. There was one instance in the petition where you indicated, and this is Exhibit 4 of the petition. You stated in paragraph 8:

I was told during a phone conversation with the buyer at Karl Schmidt Unisia in early 2007 that my belief about the 30 to 40 percent price differential was correct.

What were the circumstances under which this call took place? Did you initiate the call? Did Karl Schmidt Unisia?

MR. J. KORFF: No. I'm not -- okay.

MR. BERNSTEIN: Yes.

MR. J. KORFF: I'm not sure that was my call.

MR. BERNSTEIN: Okay.

MR. J. KORFF: It might have been a call of our salesman at the time.

MR. BERNSTEIN: Okay. I mean, have the purchasers directly told you or other people at Quaker City the reason we're not buying this from you --

MR. J. KORFF: Right.

MR. BERNSTEIN: -- is your prices are too high?

MR. J. KORFF: Absolutely. Yes.

MR. BERNSTEIN: Okay.

MR. J. KORFF: Absolutely.

MR. BERNSTEIN: I mean, basically I guess you have no reason to suspect that this is not some sort of marketing ploy to get your prices down, that they're just trying to bargain with you to get a lower price?

MR. J. KORFF: That's not my take on it. I mean, it's a bargaining possibility, yes, but at some point the prices that they are saying they're purchasing these for are below our cost to produce them even when we put on the rose-colored glasses and squeeze the numbers pretty hard.

MR. BERNSTEIN: Okay. I don't think I have any further questions. Thank you.

MR. ASCIENZO: And now the economist, Ioana Mic.

MS. MIC: Good morning.

MR. J. KORFF: Good morning.

MS. MIC: I would like to thank everybody for coming here today. I know it's expensive these days to get here.

I have a couple pricing and market related questions, although my colleagues touched upon a few of them.

Would you describe demand as being cyclical because of the emission requirements changing?

MR. J. KORFF: I think that's a fair statement, yes. Demand is cyclical because of emissions requirements. I think that's historically true.

We are so far off any normal market for the product out at Quaker City over many years, over several years now, that it's hard for me to say over let's say the last three or four that we've seen any cyclicality to it. It's been a steady decline.

But prior to that time there's been a -- and I know it back when I had the company in '87 to '92. When I first became knowledgeable in Ni-resist the minute the emissions standard changed there was a ramp

up of our business.

MS. MIC: So are these changes every three or so years?

MR. J. KORFF: It's every two years whatever the EPA comes out with, new emissions standards. Yes.

MS. MIC: And just before the emissions standards come out?

MR. J. KORFF: Everybody wants to buy a truck with the old emissions standard it seems and to avoid the new one because they're usually -- you know, whatever they attribute the negatives to them. Higher priced, lower mileage or whatever. They want to get in under the old emissions standard.

MS. MIC: And lately this has been less frequent?

MR. J. KORFF: Well, it's 2010 I think is the emissions change now, but in the current economy things are -- you know, I don't think too many trucks are being sold today, although there's a tracking mechanism for this.

I mean, you can get -- and I haven't done it. You can get on an internet site and look for Class A trucks and try to find the sales of Class 8 trucks, which is a really good surrogate number for the number of aluminum pistons, aluminum diesel

pistons that are sold.

MS. MIC: Europe is a bigger market for diesel engines.

MR. J. KORFF: Yes.

MS. MIC: Do you have some exports?

MR. J. KORFF: We currently only export one product into Brazil. It's a very small quantity, and it's twice a year. We'll do maybe a few thousand pieces.

It's a double ring with pins in it, and it's a part that apparently is unusual enough where the people in Brazil don't want to do it themselves so we still get that business, but as far as a single ring piston we have right now zero orders for any single ring inserts.

MR. G. KORFF: If I could just add with regard to the nature of the market? I'm trying to think of a good way to describe it.

The market itself for this product, because of the current economic situation we're in, it's smaller. The pie is smaller in absolute terms, but our share of the domestic market for us, our piece of this pie, has also decreased.

So not only has the entire market shrunk, but our relative percentage of the market has shrunk

so we're not just here complaining because we don't have the same amount of business as before just because the market is smaller. It's also because our relevant percentage of that market has also decreased, and we can identify exactly why that is.

The only other two people importing again -- or not people. Excuse me. Countries importing into the United States are Argentina and South Korea with regard to this particular product as far as we can tell based on the trade data we've been able to pull.

MR. J. KORFF: Yes. Our market share now is zero. We have no orders for this product.

MS. MIC: Did you try to explore Europe as an export?

MR. J. KORFF: Yes. We used to be very active in Europe, but there has still been some consolidation in the piston industry in Europe, and some of the customers we formerly shipped to don't exist anymore.

I think globally there might be some other Ni-resist producers other than of course Argentina and South Korea. I know China claims to sell Ni-resist inserts. I know Brazil does. I think there's a plant in Turkey and perhaps one in Poland that also produces Ni-resist inserts.

But I don't have competitive information about that and that's not part of our claim here because I don't know that they specifically ship into the United States. We have not found that to be true.

MS. MIC: Thank you, both of you, for those answers.

You mentioned a substitute product in your earlier testimony. Would you like to develop on that?

MR. J. KORFF: Substitute for aluminum diesel pistons would be either an iron piston or forged steel. There may be others now other than aluminum, but I'm not aware of any but those two.

MS. MIC: Are these perfect substitutes? Are they more expensive? Are they harder to produce?

MR. J. KORFF: I think the substitute is based on the application in the specific engine. The forces encountered by the piston in various engine configurations would dictate the design of the piston. My understanding is that if the forces are extremely severe that the aluminum itself is not sufficient any longer. There's also an issue with heat.

I'm not an engine designer, but my understanding is it goes into the emissions equation itself and how hot the engine can operate at, what temperature it can operate at, and the temperature at

the top of the piston because that's where the substantial heat gets to because it's where the combustion is in the cylinder.

MR. G. KORFF: Just so we're clear, we're talking about pistons, not the inserts themselves.

MR. J. KORFF: Does that answer your question, or do you have more? I'll try to say it in different words if that will be helpful to you.

MS. MIC: No. Thank you for that clarification.

MR. J. KORFF: Okay.

MS. MIC: That's what I was looking for.

MR. G. KORFF: Is your question whether or not there's a substitute for this particular product, the Ni-resist insert?

MS. MIC: I was looking for the inserts.

MR. J. KORFF: Yes. I'm not aware. I think people experimented with ceramics, but I'm not aware of a ceramic piston there. There may be, but I'm not aware of it.

MS. MIC: Thank you.

You mentioned that you used two types of formula --

MR. J. KORFF: Right.

MS. MIC: -- to determine the price. The

first formula includes all metals?

MR. J. KORFF: Right.

MS. MIC: Are they all adjusted to the London Exchange?

MR. J. KORFF: No. The first formula is adjusted by our actual purchase price of the materials. It is our prices, what we actually pay for the materials, and it's not indexed to any government index or London Metal Exchange index, although the purchase price we pay for the materials tracks the indexes pretty well.

For example, we could have a supplier that if we bought Ni-resist scrap -- let me go back a different way. Ni-resist scrap is Ni-resist, Type I Ni-resist, of the same composition that the piston insert is, so if we obtain that on the market we will melt that, check the chemistry, tweak it a little bit, add a little bit of something, dilute it down a little bit, whatever, to make the chemistry fall within specification.

Now, when we go on the open market for that Ni-resist scrap, and if I look at the same day we order that Ni-resist and if I calculate 15 percent of the price that they're asking for it, which is the equivalent nickel inside of the Ni-resist, and compare

that to the London Metal Exchange cash price for that day it often isn't the same number. I can't buy nickel at the London Metal Exchange price, but it may parallel the London Metal Exchange. It will index against it.

Okay. But in the first formula we use it's our actual purchase prices of all the metallic components that go into making Ni-resist, okay? In other words, we buy pig iron. We buy chrome. We buy manganese. We buy nickel. We buy copper. We buy Ni-resist chips if it's available. There's another material we buy is monel, which is nickel/copper alloy that you can put in, and you can dilute it down. It comes to Ni-resist chemistry.

You're making a soup, and you've got to put all the ingredients in the soup. Each ingredient has its own price, and by the time you're finished putting it all in the soup the soup has a cost to it.

MS. MIC: I appreciate for that knowledge.

MR. J. KORFF: Okay. The other part, the other equation we use, does in fact track the London Metal Exchange.

We looked over our history of what our internal formula would result in as far as a surcharge and cents per pounds, and we compared that to the

daily cash price on the London Metal Exchange and found that in some months we're a little ahead of them or lagging them. In some months we're a little below them, but it's not a bad surrogate for our own formula.

The only time it got very bad was in the last -- when the metal market went berserk and everything was jumping up and down tremendously then because Ni-resist has other elements in it other than nickel, when you only use the nickel component and let's say copper is jumping up by $2 a pound and copper is six and a half percent of this material then nickel becomes a less direct or a less accurate surrogate number for your surcharge calculation.

Did I say that in a way that you got it?

MS. MIC: Yes.

MR. J. KORFF: I can say it in other ways if that will be helpful.

MS. MIC: No.

MR. J. KORFF: It's not an easy concept sometimes if you're not in the business, but we deal with this stuff all the time so it's -- you know, it's part of our life.

MS. MIC: I appreciate those answers. Thank you.

MR. J. KORFF: It used to be part of our life. We'd like it to become a part of our life again.

MS. MIC: Thank you.

MR. ASCIENZO: The auditor, David Boyland?

MR. BOYLAND: Thank you. Good morning. Thank you for your testimony. You've already responded to previous questions that I submitted. I appreciate that.

I have a few things here. In terms of the company's overall operations, how does Ni-resist relate to the other products that the company produces?

MR. J. KORFF: As a percentage of it?

MR. BOYLAND: Well, I guess starting more from a basis how the company operates, the manufacturing.

MR. J. KORFF: Okay.

MR. BOYLAND: Is there a point where they overlap and then they diverge?

MR. J. KORFF: Actually only rarely. Let me put it that way. Only rarely.

We operate we have a sand casting business in which we make iron and steel and stainless steel and now some aluminum sand castings. That's castings

made in sand molds.

We have a separate area that makes centrifugal castings that used to be exclusively for Ni-resist inserts, and now we're trying to do other things in it just to try to utilize capacity.

We actually have a profit and loss statement that separates the two businesses, and when we did exclusively Ni-resist in that area it was essentially a Ni-resist profit and loss statement.

Now we do some allocations depending on an average month's sales in that centrifugal area to try to allocate it between the three or four product areas that we have in that centrifugal business now.

MR. BOYLAND: So the melting process. Is that common to all?

MR. J. KORFF: No. The melting furnaces in the Ni-resist area are unique to that centrifugal casting area.

Once in a great while we'll pull some metal from the sand foundry area if we need -- the centrifugal casting furnaces are what's called continuous furnaces. Once they're on they're on for nine months in a row, 24/7.

We have three furnaces. They're capable of about oh, 11,000, 12,000 pounds of metal, probably

15,000, 18,000 pounds in 24 hours if they were running just perfect, perfectly, and then the sand foundry has coreless induction furnaces which are more batch type furnaces, but the centrifugal area has continuous furnaces that's metal on tap 24/7.

MR. BOYLAND: And this is sort of getting back to the raw material, the input question. I sort of took it that the Type I Ni-resist scrap is the primary ingredient, and then you alter the chemistry. Is that correct?

MR. J. KORFF: Yes, it is for when we were heavy into the business.

We also generate our own machining chips. When we machine the tubes, those chips go back and get recycled. So we have our own internally generated scrap to make the tubes plus purchase scrap.

Sometimes Ni-resist scrap isn't available. I don't know the market for it right now. I haven't bought any in a long time. When it isn't available we use substitutes. We use monel and pig iron to dilute it and then add ferroalloys to it to trim it up.

All the batches are tested by we have spectrographic chemical analysis and we check the microstructure, which means you go into the -- you polish samples, and you look at the microstructure of

the metal. You do tensile tests. You pull the bars. You do the whole gamut of testing to it.

MR. BOYLAND: In terms of when you were purchasing the Type I Ni-resist scrap, was that from a domestic source or a combination?

MR. J. KORFF: Yes, mostly domestic. It varies from time.

Ni-resist is also used in deep well drilling. There's little pump parts that we used to get all the time out of the Texas market that we would melt for Ni-resist.

Sometimes different people would have it for I don't know where they got it from, but a fellow in Cleveland would get some from time to time. We had somebody in Columbus for a number of years, Ohio, a lot of it from Texas, once in a great while from the west coast. It just depends on what broker happens to have it.

MR. BOYLAND: So it's on a spot basis? You don't have a long term or you didn't?

MR. J. KORFF: We don't have a long-term contract for it, no.

MR. BOYLAND: You described in your testimony that the Ni-resist sales peaked during the '90s.

MR. J. KORFF: Right.

MR. BOYLAND: The mid '90s, like '96?

MR. J. KORFF: Yes. If you look it's in our Exhibit 5, in our nonpublic version of Exhibit 5, and it tracks pieces, pounds and dollar sales and then what I think the LME nickel market was at the time.

MR. BOYLAND: Okay. Again, I don't --

MR. J. KORFF: Is that correct? Hold on. Geoff is reviewing that right now.

MR. G. KORFF: 1997 I believe would be the highest year, after which it started to decline basically to its current state is a fair statement.

MR. BOYLAND: I have to sort of be careful the way I phrase the question, but in terms of if I'm looking at financial results now as opposed to then, how would you characterize the profitability of the product?

MR. J. KORFF: I don't have access to the numbers, the company numbers, in 1997 -- that was prebankruptcy -- but speculating based on the sales volume at that time I think it was a substantial profit contributor to the overall business of Quaker City Castings.

MR. BOYLAND: And I think you said this earlier, but correct me if I'm wrong. The percentage

that Ni-resist represented as a percent of total sales was different than as opposed to now?

MR. J. KORFF: That I do know. In the '90s it was about 50 percent of our sales dollars. About 50 percent.

The company back then was about a $20 million company, and $10 million of that was the Ni-resist business.

MR. BOYLAND: In terms of sales, does the company bundle the product with other products, or is it pretty much Ni-resist standalone when you invoice a product to a customer?

MR. J. KORFF: It's just Ni-resist. No. That's strictly Ni-resist sales. Yes.

MR. BOYLAND: And you mentioned that the bankruptcy itself was largely due to the Ni-resist decline?

MR. J. KORFF: It was a combination of things, but the Ni-resist business was declining.

When I studied the business again when I came back to become interested in it for purchase out of bankruptcy the Ni-resist business had been declining, but the bankruptcy of Federal-Mogul put a big -- just a tremendous -- hurt on the company at that time.

MR. BOYLAND: In terms of Ni-resist itself and the diameters that you're selling, and I would be calling it product mix, did that change at all during the period?

MR. J. KORFF: Probably some. I don't know if we've got that in our average weights. I don't know. I can probably come up with that information.

MR. BOYLAND: I guess it's more kind of a qualitative question --

MR. J. KORFF: Yes, probably --

MR. BOYLAND: -- and not quantitative.

MR. J. KORFF: -- somewhat, but when the company was doing millions of these things a year you did have a whole variety from very small parts, you know, little rings that big to stuff this big.

The bulk probably is represented by the samples that are going around. The bulk of them are roughly that size.

MR. BOYLAND: In terms of again not getting into the business proprietary, but with the decline of the product and the centrifugal part of your business was primarily Ni-resist, you're trying to develop new products. You mentioned an EZ Slider.

MR. J. KORFF: EZ Slider cylinder liners.

MR. BOYLAND: And that's not Ni-resist?

That's completely different?

MR. J. KORFF: No. That's iron, ductile iron and compacted graphite iron, and it's just taking hold right now, just now. We've received our first orders for it.

We set up a website, an on-line store, and we're offering some stock sizes with specific cars for liners. We put out a big mailing, and we're spending lots of money trying to market this thing. We just really received our first orders for it in December.

MR. BOYLAND: Are there other products that are being produced in addition to that?

MR. J. KORFF: Actually, yes, there is. It's for Federal-Mogul, so we're probably cutting our own throats here in a little bit if they retaliate on us and stop buying the lapping pot.

MR. BOYLAND: And that's also produced in the centrifugal?

MR. J. KORFF: Yes. Yes.

MR. BOYLAND: Okay.

MR. J. KORFF: We also produce some lapping pots from time to time for a few other piston ring producers, but those orders are very sporadic.

MR. BOYLAND: I guess part of my question was getting back to not actually disclosing the

number, but the capacity utilization during the period that we're looking at clearly declined. It was already low, but there was a decline.

I guess where I'm going with this is sort of the average cost that I'm looking at during the period, just unitizing it. Keeping in mind that capacity utilization has declined, if I went back in time and looked at an average cost when the plant was running at a higher capacity utilization I'm assuming that it's fair to say that that average cost would be lower?

MR. J. KORFF: There's another exhibit, I think. I think we put a deflator on the nickel.

Do you remember that exhibit? Let's see if we can find it. Maybe that will address your question.

MR. BOYLAND: Well, the question is actually more about fixed cost absorption.

MR. J. KORFF: Yes.

MR. BOYLAND: You know, the raw material part I --

MR. J. KORFF: Yes. We really didn't do anything with the fixed cost. What we did is price the product as though it were a standalone product that covered fixed cost. We didn't try to say because

our volume declined we need to raise prices on it. We didn't say that.

We did say that in 2004 if you only order 500 pieces at a time from us we can't offer it at that price that we can order 5,000 at a time. We do have to charge you incrementally more. Not for 500 pieces. I forget what our breakdown is. We had increments from a 500 piece minimum up to, and 5,000 and above was our last number.

But we did tell our customers if you have a high volume part, something that you need 30,000, 40,000 pieces a month on, that we will look at that part as a standalone outside of the price list that we supplied.

MR. BOYLAND: Okay.

MR. J. KORFF: And we did get some business from Karl Schmidt for one part number because of that.

MR. BOYLAND: Okay.

MR. J. KORFF: But that is now gone.

MR. BOYLAND: Okay. And again, I was sort of more looking at it from just simply the cost standpoint, but I take your point that obviously --

MR. J. KORFF: Correct.

MR. BOYLAND: -- the sales were being impacted as well.

MR. J. KORFF: Did you find that by any chance? Okay. Yes.

If you would look on exhibit -- let's see. Yes. No, that's not the one that I'm thinking of. I don't know if we supplied it. I remember going through, and I don't want to take the time now. It might be in here. If it is, I could send you an email on it.

We did take -- because we thought about well, the metal pricing, the raw materials pricing is such a volatile issue in the last several years that let's try to put a deflator on it and just divide out or reduce the price of a Ni-resist. Make it separate from the volatility of the metal market.

That price over a long number of years wasn't substantial. It bounced up every once in a while. You could see it fluctuate, but from the first year to the last year it was almost the same.

If I don't have that in the exhibits -- I'm not sure we included it -- I'll get you that.

MR. BOYLAND: In terms of when you mentioned your purchase of the company's assets in 2004?

MR. J. KORFF: Yes.

MR. BOYLAND: Ni-resist had already declined in terms of --

MR. J. KORFF: Yes.

MR. BOYLAND: -- its importance to the company's overall operations.

MR. J. KORFF: Yes.

MR. BOYLAND: When you purchased the company was it your intention to reverse the pattern?

MR. J. KORFF: Yes.

MR. BOYLAND: Or how was --

MR. J. KORFF: It was the intention to reverse the pattern. I purchased it not depending on its survival, I have to say, because I could see the decline by the records and I didn't know what to do about it.

So I couldn't base a purchase on that I'm going to take the Ni-resist business and build it up to a $10 million business again. That wasn't the basis for the buy. The basis for the buy was that it was an adder to the sand foundry business, and that adder was important, but not -- the sand foundry business would exist without the Ni-resist business with less people.

MR. BOYLAND: Less people.

MR. J. KORFF: With less people.

MR. BOYLAND: Sort of a final question in that good segue. Again not to reveal anything that's

proprietary, but as a general matter is the product covering its variable costs at this point?

MR. J. KORFF: No.

MR. BOYLAND: Was it covering in 2006? I mean, has it during the entire period?

MR. J. KORFF: Certain months we actually made money in Ni-resist. Certain months. Not 2006 so much. I'm trying to think. It's been a while.

But certain months we actually -- well, I can't think of the exact months, but there were months where we got hit with orders enough to make sense of the business, and over the last several years we just didn't. We had to scramble to try to get other things in there or just abandon it.

MR. BOYLAND: I think that's it. Thank you for your responses.

MR. J. KORFF: Okay.

MR. ASCIENZO: Deb McNay, industry analyst?

MS. McNAY: I'm Deborah McNay. I'm the industry analyst, so most of my questions go to manufacturing and description uses --

MR. J. KORFF: Okay.

MS. McNAY: -- and those sorts of areas. I'm curious. What is a lapping pot? It has nothing to do with this product, but --

MR. J. KORFF: Yes. It's a centrifugal -- we make it in a centrifugal casting. We machine it. It's about this round. There's various sizes, but they're about this round and maybe about this tall, and it's used in the production of piston rings.

As I understand it, it's used as a -- they put a grinding media in, a liquid abrasive, and then they'll put a stack of piston rings on a shaft and work that into the lapping pot so it laps the piston rings. I think it helps the break in of an engine because the rings are prelapped now.

So the part we supply, it uses itself up in the process. It wears out eventually. We actually buy the used lapping pots back from the customer and pay them for scrap value on them at a higher price than they can get anywhere else because we know it's our own material.

MS. McNAY: It's your own material.

MR. J. KORFF: Yes.

MS. McNAY: I know there's an elite market for these products, but is there an after market for piston inserts?

MR. J. KORFF: No. They come in the piston, so the after market would be the piston itself, which contains the Ni-resist inserts.

MS. McNAY: Right. So it would be the same product, same specs?

MR. J. KORFF: Yes.

MS. McNAY: Nothing different? Okay.

MR. J. KORFF: Yes.

MS. McNAY: I know you've described it in the petition, but could you go through the purpose of a piston insert? Does it have anything to do with ring groove wear at all?

MR. J. KORFF: Yes. The difference between a gasoline engine and a diesel engine, gasoline engines don't have the shock loading that a diesel combustion does.

A gasoline engine, the fuel burns what they call a kernel. When the sparkplug ignites it sets the fuel burning in a kernel, and that kernel creates a wave front or a force front and pushes on the piston.

Well, in a diesel engine there is no sparkplug. The combustion is done through compression. The fuel actually gets hot enough after the engine starts to be self-igniting, and that ignition is a very -- that's what makes a diesel so loud. It's a very explosive ignition.

If the Ni-resist insert was not in the aluminum piston, then the piston ring that fits inside

or on the Ni-resist insert, the groove in the Ni-resist insert, would put forces on the aluminum piston and wear the piston out pretty fast. The Ni-resist takes that load from the piston ring and transmits it to the piston itself.

The Ni-resist has to be its composition of 15 percent nickel, six and a half percent copper plus other things, because that's the material that was found to have a thermal coefficient of expansion that approximates the thermal coefficient of expansion of the aluminum base metal of the piston, so as the piston warms and cools the Ni-resist insert warms and cools with it and expands and contracts at approximately the same rate.

If you didn't use the Ni-resist and you used a material that had a different coefficient of thermal expansion, the insert would debond from the piston or potentially crack and then the engine would be ruined.

MS. McNAY: So this insert right here is sort of designed to protect the groove?

MR. J. KORFF: Yes.

MS. McNAY: Okay.

MR. J. KORFF: It takes the initial shock load from the combustion and transmits it to the piston without damaging the aluminum basically --

MS. McNAY: Okay. Thank you.

MR. J. KORFF: -- or abrading the aluminum. It acts as a wear buffer.

MS. McNAY: Okay. What types of engines require more than one piston insert? I know you've mentioned that you're exporting.

MR. J. KORFF: Yes. I can't answer that.

MS. McNAY: Do you know where the end use is?

MR. J. KORFF: Yes. Require I don't know. There's designs that have two inserts in them, and I know for a number of years there was an aftermarket design for some I think Cummins pistons, that a company that no longer exists called Industrial Parts Depot out in Torrence, California, that we used to sell for but no longer exits, they took a small amount from us. They re-engineered some existing pistons and put double inserts in them thinking that it was more substantial and a better design, so there was some of that going on in the aftermarket for the double ring insert.

MS. MCNAY: Could you explain why centrifugal casting is important to the manufacturer of this type of insert, what characteristics it provides?

MR. J. KORFF: We spin our tubes at about 120 G forces times gravity so that the metal is seeing 120 times gravity. It forces the metal into a tube, and because the impurities in the metal, any little slag, or dross you might say, or oxides are lighter than the metal.

The centrifugal force actually forces the metal to the outside and any slag would be pushed towards the inside diameter. So the metal turns out to be more uniform and cleaner than, say, other forms of casting this ring product.

MS. MCNAY: Okay. Are Ni-Resist piston inserts used for diesel engines for light trucks in the U.S. market?

MR. J. KORFF: Yes. I think there was a 7.1 Navastar that had them, 7.1 liter Navastar had them. I think -- there are others, but I can't name them.

MS. MCNAY: Okay, so that would be a class, what, one to three?

MR. J. KORFF: Yeah, something like that, yeah.

MS. MCNAY: Could you describe a little bit of plant certification. You go through the OE process of being certified --

MR. J. KORFF: Sure.

MS. MCNAY: -- for production of --

MR. J. KORFF: Yeah, we're ISO 9000-1-2000 certified which is a -- prior to the ISO standards, we were company certified. Each company would come in and go through your quality systems and certify you and say it's okay for you to be our supplier.

With the ISO standards, most companies rely on the ISO standards as blanket certification that says you're okay, you can do what you say you're doing and you follow procedures.

MS. MCNAY: Okay. And also could you discuss a little bit the level of automation? It sounds like the production runs are somewhat short. They're not like long transfer lines. Is it more like cell manufacturing or?

MR. J. KORFF: In the foundry, we have two forms of centrifugal casting machines. We have an eight-station machine that we would put up to eight different diameter dies on and we would pour one casting at a time.

Then we have a semi-automatic centrifugal machine where one man can tap the metal, pour the tube, and extract the tube from the die, and repeat the cycle. It's sort of a continuous operation, and one person operates it.

We bought three of these machines out of Adena Corporation Plant, Richmond, Indiana, in 2004 when they closed that plant and sent everything to Mexico.

I didn't know I was going to use them. I bought them for scrap value, and we wound up rebuilding one of them into a semi-automatic machine, and we've got two or three more I'd like to rebuild if we could develop the business for it.

MS. MCNAY: Okay. Thank you. Who designs and provides the specs for the piston inserts?

MR. J. KORFF: The piston producers.

MS. MCNAY: Are they standard product sizes that you produce, or are they manufactured to a particular --

MR. J. KORFF: Every insert is different based on a piston design. There may be some families that are kind of close, but I don't know of two that are identical.

MS. MCNAY: Okay. All right. I think that does it. Thank you very much. I appreciate it.

MR. J. KORFF: You're welcome.

MR. ASCIENZO: George Deyman, the supervisory investigator.

MR. DEYMAN: Good morning. On page 42 of

the petition, you mention a double insert version of the Ni-Resist piston inserts.

MR. J. KORFF: Right.

MR. DEYMAN: Please explain what a double insert version is and how, if at all, the double insert version has affected your pricing data.

MR. J. KORFF: Okay. If you took the samples I have and just put one on top of the other with a space about this big between them -- the insert we currently produce is a double. It's a bigger diameter and it's attached -- they're attached to each other with three machine pins, and they're press fitted together so that it's a stack of two held together by pins. And yes it distorts. When that became our only part of our business, we purchased the pins from an outside supplier.

There's extra machining operations in these inserts, so our cost data is distorted because when that becomes our primary product it's such a small part of us yet it's the only thing we did, it does distort the pricing to them, or the cost because it's more costly to produce.

MR. DEYMAN: Are these double insert versions imported also from Argentina and Korea?

MR. J. KORFF: I don't know. I don't know

that. We export this one product. This one we sell to Brazil.

MR. DEYMAN: Oh, you only sell it to Brazil, so you don't sell this product domestically?

MR. J. KORFF: Currently Brazil has that piston order. That piston order has been over the years produced by different piston manufacturers. It currently is produced by Mahle in Brazil.

MR. DEYMAN: All right. There was an earlier question on substitute products. Is it fair to say that the demand for the Ni-Resist piston inserts has decreased principally because of the economy or is it because of substitute products, or both?

MR. J. KORFF: Probably -- well, the substitute product would be other piston styles, the steel, or iron, and maybe there's another one out I don't know about, but if that does not use a Ni-Resist insert and you're producing the same number of pistons a year, then you're producing less of the Ni-Resist piston inserts, but I'm just speculating. I don't know that's a fact or not.

MR. DEYMAN: Is there any way that a piston could be constructed without using the insert, for example, by alloying of the piston ring groove region

or coating of the piston ring, or something else?

MR. J. KORFF: It's possible. There's been a number of attempts that I was aware of that I, you know, have read about or actually heard people talk about. They experimented with ceramics for the Ni-Resist for a period of time.

They experimented with, I think there was a flame spray or something like that on it to try to come up with a better substitute, or a cheaper substitute, or maybe something more ware resistant.

But to my knowledge, Ni-Resist still was there. I mean, people talked about phasing it out 15 years ago and it's still there today. If you buy a piston today for a diesel engine and you cut it, it's likely to have a Ni-Resist insert in it.

MR. DEYMAN: Are there any quality differences between the inserts from Argentina versus the inserts from Korea versus the inserts that you produce?

MR. J. KORFF: I don't know of any. If somebody has done a more thorough -- you know, if they had samples side by side, we've never -- we've asked for samples from our customers. They declined to offer them to us -- so that we could perform our own studies on it, but in all the customers that we've

sold to over the years, that's never come up as an issue, not one time.

MR. DEYMAN: Is there any reason other than price why the imports from Argentina and Korea have apparently gained market share?

MR. J. KORFF: None to my knowledge.

MR. DEYMAN: My last question is, I couldn't find mention of the word "threat" in the petition. I suppose that's because you consider the domestic industry to be currently materially injured by reason of the subject imports.

But in the event that the Commission could find no reasonable indication of material injury by reason of the subject imports, I assume that you're also alleging that the industry is threatened with material injury?

MR. J. KORFF: We are the industry. There is no other producer in the United States but us. If we don't have an order, that part of our business is done. So if you interpret that as a threat, I guess that's a threat.

It seems to be another issue here that somebody ought to think about is that if there really is a problem in the United States for any reason and we need to build aluminum pistons for diesel engines

and we're the last game in town, who's going to do it?

Now, can you -- I know that's not an issue for this group, but in my mind it's like what are we thinking. Can you reproduce what we have at Quaker City Castings to produce them? Of course you can.

How much it's going to cost you? It's going to cost you 10 Million bucks to do what we do. For new equipment, it's going to take you a period of time to get up to speed with it if you can't get them from overseas for whatever reason.

You know, we're the last man standing right now, and we're sitting at this table to fight our way back up. Whether it works or not is in your hands.

MR. DEYMAN: Thank you for your answers.

Thank you.

MR. ASCIENZO: Thank you very much for your presentation today. I have a few follow-on questions.

I don't think this was specifically addressed, but how many I guess you call them SKUs, stock keeping units, or how many different piston inserts do you actually make? Is it 400, 700, 15,000?

MR. J. KORFF: Wow. You know, I don't know.

MR. ASCIENZO: Could you --

MR. J. KORFF: We've got -- over the years, we've accumulated a file cabinet of drawings that's

probably six or eight -- I mean, I could -- the customers who would buy from us were called Alkan in Nuremberg and Kolbenschmidt in Germany and Karl Schmidt in the United States and Mahle in Morristown, Tennessee.

Blown Aluminum doesn't exist anymore. Federal Mogul is now part of Karl Schmidt. Fulkay Monopole in France, it was Turner & Newell in England. I think we even shipped some to Spain. I'm not sure about sending any to the Far East.

But every one of those had a variety of configurations for the inserts, and we have drawings on all of them. I mean, we still have them. They're in our files, but we have zero orders.

MR. ASCIENZO: So several is the short answer?

MR. J. KORFF: Several is the -- I would say hundreds of drawings rather than tens of drawings.

MR. ASCIENZO: I don't think you ran the business when the sales were 8 million units a year, but --

MR. J. KORFF: No, I did not.

MR. ASCIENZO: If you had to guess, when they were selling 8 million a year, how many different models were they making?

MR. J. KORFF: Probably in a month, maybe 100 to 200 different types in a month.

MR. ASCIENZO: Different?

MR. J. KORFF: And that may be 200 different types in the next month, and maybe a few jobs that were, you know, year round.

MR. ASCIENZO: Thank you. I've heard a lot of talk about type one, a Ni-Resist metal. Is that the only type of metal that's used? Is there a type two or anything else, or is it always type one?

MR. J. KORFF: For Ni-Resist inserts, it's the only metal we're aware of. They're a very small -- people differentiate very slightly, but it's basically an ASTM, I think it's 437 spec out. It's in our -- I don't remember top of my head, but it's type one Ni-Resist. Different buyer companies will categorize it under different, their own internal name, but it's basically the same metal.

We don't -- when we make the insert, we have a continuous furnace, and the only change we will make in certain inserts if I recall right require a slightly higher chrome than others, but the base metal is -- you can overlap to come up with -- if you hit the chemistry precisely, you don't have to change chemistries. You can use the same metal for everybody

with exception of certain -- certain styles have a slightly higher chrome in it for additional ware resistance.

MR. ASCIENZO: Is the life of a ring the same as the life of the end of the piston?

MR. J. KORFF: I would say yes. If the piston dies, then you have to replace the entire part, the piston with the included Ni-Resist insert.

MR. ASCIENZO: Are they recycled? I mean, do you get them and melt them back? Can you melt them back down if you get them, the used ones, the rings? The one that have been in an engine working for how every many miles, let's say 100,000 miles.

MR. J. KORFF: Actually, the answer is yes. It's not easy to do because the aluminum after you melt the -- if you took a piston with an insert in it and melted it, the -- I actually did this for a while when I was at Quaker originally. We would -- you could melt the aluminum off. Your aluminum would flow away, and then you would have a ring.

But the ring is coated now with aluminum, and aluminum is detrimental to the Ni-Resist chemistry. If you have too much aluminum in the chemistry, you don't receive the properties.

So if you melt the left-over Ni-Resist

insert coated with the residual aluminum and you just melted them 100 percent, you would not have a metal that you could use again in Ni-Resist. The properties aren't there. Aluminum has to be controlled at a very low level.

We actually tried it, and we processed many -- we bought -- somebody else melted the piston away and took the piston and we bought coated Ni-Resist inserts. This is back in 1987/88.

Then we went through a process to rid the insert of the aluminum, and we were somewhat successful in that and we could use some of that material back in the remelt furnaces, but the economics of doing it, it was a trade off.

It was like why bother, you know. I mean, it was costing as much to reprocess -- even though you bought the rings cheaply, the reprocessing of them to get the aluminum off so you could use the metal wasn't useful to us.

MR. ASCIENZO: Thank you. The market, I think you explained or at least the high point in sales for Quaker was about 8 million, and I think there was testimony that the absolute size of the domestic industry, the market's come down.

Could you estimate what it is?

MR. J. KORFF: I can't as I sit here, but I think we've got -- well, we can't really. We're not -- when we do our data mining to find imports in the United States, they don't include pricing for the domestic data miners, so it's hard to tell what pricing these things are coming in. We can't tell.

Customs could, you know, because they have the price supposedly, but that information isn't transmitted to us, and we have not been able to access that information.

MR. G. KORFF: The best estimate I can give -- and this is roughly. This isn't the exact number -- is I believe 2008 imports into the United States was about two million pounds of this product in terms of volume.

As far as the price or value of that, I don't know off the top of my head. I would have to go elsewhere to find that information.

MR. ASCIENZO: Thank you. Is there any seasonality in this product at all?

MR. J. KORFF: I haven't found any. I couldn't identify seasons for it, no. It's pretty steady. The only seasonality you could say is around Christmastime where everybody shuts their plant down. They don't order. But other than that, if it's a

normal economy, I'd say non-seasonal in my mind anyway. It's -- you know.

MR. ASCIENZO: Those were all the questions I have. Does anyone have any other follow-up questions?

I'm sorry. Mr. Bernstein does.

MR. BERNSTEIN: Just a couple of follow-ups.

First of all to Geoffrey Korff with respect to something about which Mr. Deyman asked. To the extent you have any information or argument on the factors concerning threat of material injury in 19 U.S.C. 1677 (7)(f), it would be useful for you to provide them in your post-conference submission.

I guess we're aware and the circumstances of this investigation that the amount of information you may have with respect to several of these factors concerning the foreign industries is limited.

Nevertheless, I would observe that with respect to factors eight and nine, these do focus a little more on the domestic industry. If you have something to say about them, it would be helpful for you to share it with us in the post-conference submission.

I'm also going to make a request in advance to Respondent's panel as you do have the information

with respect to several of these things. We would appreciate your thoughts and arguments with respect to threat, should we need to reach that, in your post-conference submission.

Another thing -- I just want to go back very briefly to, again, Joseph Korff, with your testimony about the 30 to 40 percent price differential that you perceive exists between the subject imports and your product. When did you first perceive or notice this price differential?

MR. J. KORFF: Actually, it was in conversations with the previous buyer at Karl Schmidt. His name is Tim Kehoe. I called him to say, you know, we would like to receive more business from you. What would it take to do that?

He didn't tell me exactly price targets. People don't do that. But he hinted that we were significantly higher in certain of our standard pricing sheets.

Then I asked him to pick out a job that he has really high volumes on and let me look at that. We then repriced that job using lower absorption factors because we now thought that if we receive this work our overhead charges would be absorbed over a broader number of pounds or pieces, and we could offer

him a special price because of this volume absorption.

When we did that, I think -- if I remember right -- he still said we're substantially higher and he doesn't expect us to be competitive. He said it'd be virtually impossible for you to be competitive.

MR. BERNSTEIN: What was the time frame of this conversation again?

MR. J. KORFF: It was probably 2005. I'm thinking. Either late 2004 or the beginning of 2005.

MR. BERNSTEIN: Okay that's helpful -- I guess one thing, perhaps, and this will be my last question unless I have a follow-up, what would be useful for you to explain is this was several years ago, and apparently this differential has persisted, one would -- yet you continue to lose market share as you allege to the subject imports.

Why have you been unable to maintain at least the share of the market you had in 2005 with the given price differential when, the price differential, it's not a new, it's not a recent phenomenon. It's a continuing phenomenon, yet you still seem progressively to lose market share.

Do you have any thoughts you can share on that with us?

MR. J. KORFF: I really have no knowledge of

why that is except the only reoccurring issue is price. It's price, price, price. And I can't decipher that any further than that.

MR. BERNSTEIN: Thank you for your further answers.

MR. ASCIENZO: Thank you. Mr. Boyland has a follow on question or questions.

MR. BOYLAND: It's just a quick clarification. In part three of the questionnaire, page nine, question 35, we asked other products in the facilities that you produce Ni-Resist, and you have us shares of those products?

MR. J. KORFF: Yes.

MR. BOYLAND: They're proprietary, but I want to make sure I understand. This appears to be the percentage within the centrifugal --

MR. J. KORFF: Correct.

MR. BOYLAND: Okay.

MR. J. KORFF: Yes, it is.

MR. BOYLAND: And that's I think a reasonable approach, and you answered this same way in the --

MR. J. KORFF: Yes.

MR. BOYLAND: -- the trade section. The issue here would be, and it's semantic, but what we're

asking for is overall. And I understand you probably -- but essentially what I'd know would be --

MR. J. KORFF: And what section is that again?

MR. BOYLAND: That's part three, question 3-5. So we've got part of the answer, but essentially what -- actually, the percentages would change then because your denominator is going to be different. But we're looking --

MR. J. KORFF: It would be substantially lower.

MR. BOYLAND: Right because we're looking at the overall as opposed to --

MR. J. KORFF: Yes.

MR. BOYLAND: -- just that one unit.

MR. J. KORFF: Right.

MR. BOYLAND: Okay. Thank you.

MR. J. KORFF: Okay.

MR. ASCIENZO: And our Economist has the following questions.

MS. MIC: I just have a couple questions. If this is proprietary, please, as in your post conference brief, when you receive an order, do you have a minimum quantities requirement? Do you not start a job just because you would not cover your

initial cost or?

MR. J. KORFF: Our minimum is usually 500 pieces.

MS. MIC: So you will not start a job if it's less than that?

MR. J. KORFF: I don't know that we wouldn't start a job, but we stipulate, you know, we say our minimum is 500. If somebody -- if it's an ongoing job that we know we're going to get repeat orders on and somebody wanted 200, you know, we'd probably have the tubes in stock. We wouldn't have to make the castings. They'd be in stock. We may even have some parts in stock, and so we'd make up the 200.

If it's a unique new product, a unique design, then that product would have to carry the full burden and we'd price it on a 200-piece basis which would be -- we wouldn't necessarily say we wouldn't take the order, but we would price it accordingly for the small quantity.

MS. MIC: Thank you.

MR. J. KORFF: You're welcome.

MS. MIC: Do you have contracts -- or I understand most of your sales are spot sales. During the spot sales, do you fix price and quantity, or just price, or just quantity, or do you renegotiate this if

price is changed for your scrap, or other materials?

MR. J. KORFF: Yes. Let me give you a two-parter to this one. In the nineties when business was booming when I've gone through the folders that -- some of them still exist -- some were contract prices that extended over a longer period of time. Others were price sheets with an understanding that the only price variation over maybe a year or so would be the metal market fluctuations.

Currently and over the last -- oh I don't -- know maybe few years, with Federal Mogul, we did have up until the very end we did have a price sheet. With Karl Schmidt, it was basically on a per-part basis. We would do a part -- they'd ask us to quote a part, and we would give them a price on that specific part.

So you could say that's a spot basis not a contract price. Did that help or? I'm trying to answer this in the way that I understood your question and give you a little background to what the transition is.

If we're looking at 2006 to now, it's like a different world of business because it fell off the map for us. You know, it's almost not a steady state business any longer.

MS. MIC: Thank you very much. I appreciate

it. That concludes my questions.

MR. ASCIENZO: Do we have any more questions?

With that, I thank you very much for your excellent presentation and answers to the questions.

Let's take a five minute break, and we'll allow those in opposition to the Petition to come up to the table and get ready. Thank you very much.

MR. J. KORFF: Thank you.

(Whereupon, a short recess was taken.)

MR. ASCIENZO: Thank you very much. You may proceed when ready.

MR. KANE: Again for the record, my name is Christopher M. Kane. I'm here on behalf of Karl Schmidt Unisia, Inc., which we'll refer to as KUS in this presentation.

KUS is a Delaware corporation with its principal place of business located at 1731 Industrial Parkway, Marinette, Wisconsin. KUS employs approximately 1,000 American workers at its facilities in Marinette, Wisconsin, and Fort Wayne, Indiana.

KUS is a manufacturer of pistons, essential components and original equipment, gasoline, and diesel engines. Its customers include Cummins, Navistar, Ford, and other U.S. companies that

manufacture and use these engines in the production of trucks, automobiles, and non-highway engines thereby providing employment for hundreds of thousands of American workers.

The petition in this case was filed by a company that by its own admission has never employed more than 18 workers according to the public version of the petition in the manufacturer of Ni-Resist piston inserts during the six years from 2002 to 2007.

Contrary to allegations made by the petitioner in this case, the piston insert business has been and is affected by influences other than imports from Argentina.

The general downturn in the demand for motor vehicles manufactured in the United States, technological advances, changes in customer requirements, and changes in non-highway uses for engines with Ni-Resist piston inserts are the primary causes for the reduced demand for Ni-Resist piston inserts in the United States.

Due to the technological advances prompted by mandates imposed by the Environmental Protection Agency and otherwise, there has been a significant increase in the production of all steel pistons, a product which does not incorporate Ni-Resist piston

inserts.

There are numerous articles again on the internet that reflect this movement toward diesel engines using all steel pistons manufactured by our client, KUS, Federal Mogul, and the German piston manufacturer Mahle.

KUS's business selling pistons to original equipment manufacturers is on a program basis not on a spot basis for the most part. These programs take as many as two or three years to develop before the first piston production models are actually delivered.

KUS has purchased Ni-Resist piston inserts from Clorindo Appo SRL of Argentina for more than 10 years as the primary source of its program business. Clorindo has provided a reliable source of supply throughout that time meeting KUS's requirements for quality and timeliness of delivery.

KUS has sought alternative sources of supply and, in fact, conducted negotiations with Quaker City from 2006 to 2008 for Quaker City to become a more significant source of supply for KUS and its related company Kolbenschmidt Pierburg Worldwide. This business would have included North and South America and Europe.

QCC withdrew from the negotiations after

refusing to agree to the use of the same pricing formula offered by Clorindo Appo. Under KUS's terms with Clarendo, the formula used is the industry standard.

There's a base price per unit subject to a surcharge tied to the price of nickel published on the London Metals Exchange. Nickel is the only metals variable in the computation of the piston insert price paid by KUS to Clorindo.

While the base price offered by Quaker City in the negotiations was actually lower than the base price charged by Clarendo, the price variability attributable to the other metals such as copper, chromium, and manganese made the price offered by QCC one fraught with uncertainty.

Had QCC not withdrawn from the negotiations, KUS would have not been able to accept the terms that QCC was offering because of the unpredictable cost impacts to KUS on the sales of finished pistons to KUS's customers.

Another concern in determining the patronage of Quaker City by KUS was the commitment of capacity by Quaker City to the Ni-Resist business. In letters to customers in July 2004, Quaker City indicated its facilities were committed to sand casting with Ni-

Resist business being underwritten by the sand casting business.

Quaker City asked its potential customers to support Quaker City by placing orders with the company or Quaker City would leave the business. On the heels of this correspondence, Quaker City raised its prices which not unpredictably produced a chilling effect on orders.

Despite all these concerns, KUS has purchased piston inserts from Quaker City during the past ten years, typically more than 100,000 units annually and as high as 300,000 or more twice during that period.

In 2008, KUS purchased what we estimate to be almost 90 percent of Quaker City's Ni-Resist insert production based on the figures shown on Exhibit 5 to the petition in the public version of 150,000 pieces.

These purchases were occasioned by scheduling exigencies at KUS that required shorter lead times than deliveries from Argentina would have allowed.

But based on these numbers, Quaker City might be seen as a threat to Clarendo's business in the United States rather than the other way around. Nonetheless, KUS has conducted its business as a

piston manufacturer almost entirely independent of Quaker City.

The overall volume of imports from Argentina sold to KUS has not had an impact on Quaker City because those inserts would not have been purchased from Quaker City for the reasons we have described.

We appreciate this opportunity to speak with the acting director and the staff to comment on certain issues we have with the petition and the exhibits.

We cannot ignore the misleading statements in footnote 11 on page 9 of the petition concerning an alleged customs investigation and that the product imported by KUS from Clarendo has been entered into the United States under HDSUS 7326.90.

This supposed classification was apparently based on data shown on Exhibits 10 and 29. Those exhibits show what looks to be a harmonized tariff number of 7326.90.00.900 or 7326.90.00 900J. Neither of these numbers is nor have they been in the harmonized tariff and therefore could not have been used on entries of merchandise into the United States.

As for the statement regarding the customs investigation, we'll refer the commission staff to Mr. Don Yando, the U.S. Customs Executive Director of

Commercial Targeting and Enforcement who can confirm that this type of information is not shared with the public as it is generally exempt from disclosure under the Freedom of Information Act, and at the same time we believe that this information, if divulged by a government employee, would also violate the Trade Secrets Act, 18 U.S. Code 1905.

Finally, we would also comment that what Petitioner portrays as direct evidence of the participation of Clorindo in a financial subsidy program in its reference to Exhibit 15 is at most an inference by the petitioner who ignores the actual statement by the KUS employee who once again was Tim Kehoe, who pointed to price increases by Quaker City instead of charges as discouraging business between KUS and QCC.

I now defer to Mr. Lowe for his comments.

MR. LOWE: Thank you. Again, my name is Jeffery Lowe with Mayer Brown. We're here representing Federal Mogul, and I'm going to make a few remarks at the conclusion of which I will be available, and my colleagues, and Mr. Czerwinski as well, to answer any questions.

There is only one use for Ni-Resist piston inserts, that is to produce diesel engine aluminum

pistons that Federal Mogul is aware of. There is only one U.S. producer of Ni-Resist piston inserts, the petitioner, Quaker City Castings which, according to the petition, has accounted for 100 percent of U.S. production since 1995.

Federal Mogul is and has historically been a major producer of aluminum diesel engine pistons at its facility in Lake City, Minnesota. Federal Mogul used to purchase all of its Ni-Resist piston inserts from Quaker City Castings. Federal Mogul now imports Ni-Resist piston inserts from South Korea.

Quaker may have lost market share, but there is no reasonable indication that it is materially injured or threatened with material injury by reason of subject imports. To demonstrate why this is so, I will first focus on several conditions of competition that are distinctive to the Ni-Resist piston insert market.

The first condition of competition is the process to manufacture Ni-Resist piston inserts. The equipment and machinery as we've already heard today used to produce Ni-Resist piston inserts can be and often is used to produce other products.

The production process includes three steps: melting, centrifugal casting, and machining. Melting

takes place in what is usually an electric induction furnace. The mix of alloys and other ingredients determines the precise applications or products to be produced.

Centrifugal casting, the molten metal is poured into a mold and rotated during solidification. This is called centrifugal casting which is well-adapted to producing cylindrical parts including Ni-Resist piston inserts and the tubes from which they are made.

Machining takes place on a variety of tools depending on the product being produced. Like other cylindrical products, Ni-Resist piston inserts are cut from centrifugally cast tubes before being machined to the desired specification.

Quaker confirms that it produces Ni-Resist piston inserts and other products using the same equipment and machinery. The testimony we heard today confirms that.

Quaker also states on its website that it operates three electric induction furnaces and nine casting machines. Quaker boasts that "inherent to the centrifugal casting process as a high degree of production flexibility usually without costly tooling charges."

Also according to Quaker it's "spin doctors" can produce a variety of centrifugal applications on the same equipment including cylinder liners, lapping pots, bushings, Ni-Resist piston inserts, and heat-shaped tubes. These products are then sold for use in the automotive, power generation, refinery and other industries.

A second condition of competition is the declining market demand for Ni-Resist piston inserts. There are several reasons for this trend, none of which are related to subject imports.

First, as Mr. Kane noted, diesel engine producers have shifted in recent years from aluminum to steel pistons which do not use Ni-Resist piston inserts. This trend began in the early 1990s as more restrictive federal emission standards went into effect favoring steel over aluminum pistons.

Quaker also acknowledges that the high cost of fuel and the accelerating global economic downturn have sharply decreased demand for diesel engines and diesel truck-related products. This has further lowered demand for ni-resist piston inserts. These factors have caused the apparent domestic consumption of ni-resist piston inserts to fall off sharply during the POI.

Moreover, as market demand and technological innovation promote greater fuel efficiency and even less reliance on aluminum pistons, Federal Mogul and others project an additional decline in market demand for ni-resist piston inserts in 2009 and beyond.

Next, Quaker's own marketing practices are an important supply-based condition of competition. Federal Mogul, Karl Schmidt, and Mahle, Inc., are the only known producers of diesel engine aluminum pistons in the United States.

In 2004, in letters to Federal Mogul and these other piston producers, Quaker cited the declining demand for its ni-resist piston inserts and threatened to cease production of the product altogether unless it received a certain guaranteed level of monthly sales revenue. Quaker preceded and followed this threat with price increases.

Until that point, Federal Mogul had relied exclusively on Quaker for its U.S. supply of ni-resist piston inserts, and, in the face of Quaker's threat to this supply, given the absence of any other domestic supplier, Federal Mogul was forced to begin importing ni-resist piston inserts in 2006.

Another supply condition concerns U.S. imports of nonsubject ni-resist piston inserts. To

begin, ni-resist piston inserts are a commodity product, meaning they are generally interchangeable, regardless of the source. Thus, nonsubject imports are fully interchangeable or fungible with subject imports.

Given decreasing market demand for ni-resist piston inserts, nonsubject imports declined during the POI, as did subject imports, and may decline further in 2009 and beyond. However, nonsubject import volumes were substantial throughout the POI.

Nonsubject imports also significantly undersold both subject imports and the domestic like product.

For these reasons, the Commission should find that nonsubject imports are a significant factor in the U.S. market.

Turning to the statutory factors that the Commission considers in reaching its injury determination, subject imports of ni-resist piston inserts declined significantly during the POI. Nonsubject imports also declined. Indeed, to the extent subject imports increased market share, they did so not at the expense of domestic like product but of nonsubject imports.

Based on the limited comparative pricing

data, the prices of Federal Mogul's imports were slightly lower than for its purchases from Quaker during the POI. However, looking just at the public version of Exhibit 5 to the petition, Quaker increased its prices during the POI on a per-pound basis, the price basis that Quaker urges the Commission to utilize. Quaker's prices thus were not depressed.

Similarly, Quaker claims in the petition that it has been selling below cost for the last two years to maintain business. Quaker's actual data belie this claim, however, and demonstrate that its prices have not been suppressed.

In addition, information in the record demonstrates that nonsubject import prices were considerably lower than the prices of either subject imports or the like product. Thus, to the extent the record does show negative price effects, they were caused by nonsubject imports, not subject imports.

The conditions of competition described above dictate the current state of the domestic industry. The record contains clear and convincing evidence demonstrating the absence of any reasonable indication that Quaker is experiencing material injury by reason of subject imports.

The sharp decline in demand for aluminum

diesel engine pistons caused by the shift to steel pistons, the slowing economy, and the various technological innovations, have all combined to cause a correspondingly sharp decline in demand for ni-resist piston inserts, both prior to and during the POI.

Quaker reacted to this decrease in piston insert demand by threatening, in 2004, to shut off supply. Quaker followed its threat with price increases, which had a predictably chilling effect on U.S. piston producers, as noted by Mr. Kane, with regard to KUS, and, as noted, Quaker's threat to its input supply led Federal Mogul to begin importing ni-resist piston inserts from Korea in 2006.

Quaker also adheres to pricing and other marketing practices that are at odds with global, ni-resist-piston-insert market industry standards.

First, Quaker applies abnormally high surcharges based on its total material costs. Quaker passes all of these costs on to consumers in the form of monthly price increases. These price increases are not dictated by demand in the marketplace either for piston inserts or pistons.

Federal Mogul has firsthand knowledge of the pricing practices of ni-resist piston insert

manufacturers, both affiliated and unaffiliated, in Germany, Poland, Turkey, Korea, and Argentina. No other world producer prices its ni-resist piston inserts like Quaker does.

Second, Quaker requires purchasers to place large-quantity, ni-resist piston insert orders even for small-volume part numbers. Further, Quaker insists that any contract include dozens of models or parts.

Prior to reaching a preliminary determination, the Commission should require Quaker to better explain its surcharge policy and defend why its pricing practices should not be considered unreasonable.

In the face of falling demand, its former customers sourcing their diminishing requirements elsewhere, and Quaker's own unusual marketing practices, Quaker appears to have relied on its "high degree of production flexibility," as described on its website and in the testimony today, by shifting production away from ni-resist piston inserts to other cylindrical products produced on the same equipment and machinery.

Prior to reaching a preliminary determination, the Commission should require Quaker to

provide output, sales, capacity utilization, employment, productivity, profitability, and other pertinent financial information concerning its production of other cylindrical products.

As for the question of threat of material injury, many of the same factors discussed just now also contradict Quaker's assertions that it is being threatened with material injury by reason of subject imports.

One, given the anticipated further decrease in market demand for ni-resist piston inserts, for all of the reasons discussed, the volume of subject imports is likely to continue declining significantly. As market demand for ni-resist piston inserts continues declining, Quaker and other international producers of the product will be able to, and can be expected to, further shift production to other products using the same equipment and machinery.

Moreover, there are numerous other export markets available where higher levels of aluminum piston production can be expected to continue and where demand for ni-resist piston inserts will remain strong.

That concludes my preliminary remarks.

MR. ASCIENZO: Thank you very much. Was

that the end of the affirmative presentation by all?

MR. LOWE: Yes, it was.

MR. ASCIENZO: Thank you very much. That was very informative. Let's start the questioning with Mr. Kaplan, the investigator.

MR. KAPLAN: Okay. Thank you all for coming as well and appearing here today. I appreciate your testimony.

It's been mentioned a few different times and by different people, and I actually asked a similar question to the previous witnesses regarding the same matter, but I would be curious to hear the take of Mr. Czerwinski and Mr. Turcott.

These ni-resist piston inserts; they have been referred to as a "commodity product," that they are all the same, but it seems as though there is a somewhat involved process in making them. So are you aware of any differences in the quality that you've seen from your different purchases from Quaker or from imported products? Are you aware of any differences in the quality there, either one?

MR. CZERWINSKI: We have not seen any quality differences between any of the imported ni-resist rings that we've received versus Quaker. Both are of equivalent quality.

MR. KAPLAN: Thank you. And this is just more for calculation or confirmation. It's been alluded to and stated, but I just want to confirm here record, do your companies produce aluminum pistons not containing ni-resist piston inserts? Has that ever happened?

MR. TURCOTT: Absolutely.

MR. KAPLAN: Would you mind elaborating on that?

MR. TURCOTT: Yes, we do. The ni-resist -- we call them "ni-ring inserts" -- are only used for diesel engines.

MR. KAPLAN: This is for diesel. I'm sorry. I didn't clarify that.

MR. TURCOTT: Okay, because we make aluminum pistons for gasoline engines, and they do not have the ni-ring inserts.

MR. KAPLAN: That was my mistake. But pertaining to diesel engines, is there ever a case where an aluminum piston doesn't contain a ni-resist insert?

MR. TURCOTT: No.

MR. KAPLAN: Thank you. Looking forward, and to the extent that you're able to provide this information without revealing business proprietary

information for your companies, you've described the relationship as it was with Quaker City castings in the past and how you became to be involved with the imported producers. Moving forward, looking forward, based upon where things stand now, do you expect to continue the current buying practices, the current sources, of these ni-resist inserts, or is that unclear at this point?

MR. TURCOTT: It's hard to determine. It depends on a lot of factors, as you well know. We're automotive suppliers. We're in the automotive supply industry, all of these millions of jobs and things. We don't know where it's going to go. We're asked for projections every month. "What do you project in August?" "What do you project in December?" "What do you project next year?"

Mr. Kaplan, can you help me?

MR. KAPLAN: Let's say that there is still demand for your aluminum pistons that require ni-resist inserts going forward. Assuming that were the case, would you expect to maintain your current buying practices, based upon the current standard, or is that also up in the air?

MR. TURCOTT: We would probably continue, but it's a matter of eliminating risk in the supply

base.

The business is very unique. First of all, there is a very small range of customers. There's only three major producers of pistons for those customers.

We use unique equipment, customized equipment. All of the products are custom products, specifically designed for specific engines, with tolerances of .1 to .3 microns.

On the other end, there aren't that many suppliers for a lot of the things that have to be used in the business.

One of our concerns is to minimize the risk of suppliers, going out of business, not being able to deliver, not having the quality, whatever that might be. Our customers are extremely large. They have extreme leverage, in spite of the contribution they are going to be receiving from the government. They are just-in-time.

They approve the supply chain all the way down, from the pistons to the components with the pistons; it all has to match. They all have to be approved, and they all have to pass audits. If you're a Tier 1, you're responsible for those suppliers below you, but there are cases where they direct who the

supplier is going to be, for whatever reasons they might have.

Going forward, we're always looking for alternatives. Yes, we've been using Clarendo Appel for many, many, many years before Quaker City, but, prior to 2004, Quaker City was in bankruptcy. It's not the kind of company you start up a big program with. In 2004, they were bought out of bankruptcy, and one of their companies was shut down.

Subsequent to that -- I believe it was in June 2004 -- a letter arrived. It certainly arrived at Karl Schmidt Unisia, and it apparently arrived at Federal Mogul as well, informing us of the new leadership, the new ownership, et cetera, being partners, the issue with the ni-ring versus the sand-casting business, saying, "We want you as customers to be part of our decision going forward."

Shortly after that, they sent a letter substantially increasing all of their prices. In the previous letter, they asked us to vote on the future of Quaker City with respect to ni-ring inserts. Apparently, the industry voted no, certainly to these high prices that were imposed on us.

Again, going back to the risk concern of suppliers in this just-in-time business, with these

huge customers, and the penalties are extremely severe. When you shut down a line for Ford or Cummins or General Motors, it's not like, "Well, we'll just send them home." You pay for those people. It could be millions of dollars a day. So you can't shut them down.

So, in order to eliminate risk, you're always looking for another supplier, and we looked at Quaker City, and there were differences, and we explained those differences to them, some of which have appeared, in some fashion, in their petition.

We explained to them, they needed to be on the London Metals Exchange nickel surcharge program formula that everybody else uses. After negotiations, for a while, we did buy from them at their self-serving formula. It was only out of necessity. It was a temporary alternative source.

Eventually, they said they would agree to that. By the way, they also failed an audit at their factory. They came around to do that, to make some changes there, too, although I don't think they made them all.

They finally got to accepting and agreeing to use the LME Exchange surcharge formula, and we said, "Great. You're now on an even playing field,

but because we are a part of a much, much larger company, albeit we're autonomous in North America, our overall company is looking for people that can supply on a global basis."

So we invited them to quote globally, and they did quote globally, but they couldn't quote euros, and they couldn't quote delivered to Europe.

Also, their prices were substantially higher, and then they were raised again, and they went off the LME nickel standard. That doesn't lower our risk in terms of alternative supply.

We've tried to keep up contact with them since this last August. I think there have been a couple of calls. I think the last call was from their marketing person, or whatever it was, in December or November, saying, "Hi, Christmas," et cetera. That's the last we heard from them until January 26th of this year.

We were trying to eliminate risk. We can't eliminate risk with suppliers that the customers won't accept, and part of customer acceptance is price. How much our customers are going to pay determines how much we can pay, and if we can't afford to buy a part, then we can't sell that part along with our piston to our end-user customer, of which there are a very

limited number. It's not like a typical world. It's not like the retail grocery business, where if you don't like the price of corn flakes at this store, you can go across the street to that store or down to the convenience store. It doesn't work that way.

The business is capital intensive. It takes a long time to put programs into effect. Two or three years to start a program, launch a program, is short. Many programs are started, and it takes four, five, six, seven years, and then they are not even done. They are not completed because the customer decides not to do that program.

There is a lot of investment in these programs before they even launch in the first vehicle. There's prototypes, many, many; testing, testing not only in the United States. There might be testing in Japan. There might be testing in Europe. It all goes into the pot.

But with respect to Quaker City, we would have no problem doing business with Quaker City if they were competitive, if they would help us eliminate risk going forward, and if our customers are going to accept the prices that we have to pay to be passed through.

MR. KAPLAN: Thank you, Mr. Turcott.

Mr. Czerwinski, did you have anything that you wanted to add, or have you had a similar experience with your company? Perhaps you can elaborate a little bit more on what Mr. Lowe said previously.

MR. CZERWINSKI: I think, to touch on some of the points that Mr. Turcott is also raising, obviously, the letter that's been referenced from 2004; Federal Mogul was put at risk as a result of that. Being their largest customer of ni-resist rings, at that time, inserts, we felt threatened, obviously, by the letter.

So your question, though, was more about on a go-forward basis, and we, not to disclose our sourcing strategies in this forum, but certainly we're constantly monitoring our supply base for, you know, key indicators. Probably the two most important are quality and delivery.

If my plant doesn't have the right parts at the right quality level when they need them, we can't support our customer base, and we, you know, could destroy relationships or injure relationships with our customers, so we certainly key on quality and delivery.

Then, to the extent that the commercial

package makes sense, then that will dictate who we buy product from, and, again, we're constantly monitoring our supply base. The supplier that offers a commercially competitive package today; that may change over time, and, obviously, we're monitoring that.

But, you know, looking at things like base price, looking at the surcharge, looking at the payment terms, order quantity, we look at all of those factors in determining our sourcing strategies. What we've talked about today is that there are cases where, for example, the surcharge is not consistent with the way surcharge is calculated with other suppliers for metal market adjustment.

The majority of our supply base, with the exception of Quaker City, is strictly a nickel-based surcharge. It does not include the other items like silicon, manganese, and copper that is included in the Quaker City surcharge.

I might add that, while Quaker City apparently offered a nickel-only-based surcharge to some of our other customers, to my knowledge, this was not offered to Federal Mogul, and so, therefore, we were working within the boundaries of, essentially, a noncompetitive, market-competitive surcharge.

Then the order quantity is another key point for us, in that we do have small lot sizes that do require the volume of a certain application might be low, and so if the minimum is 500 pieces, and the annual requirement for a unit is 250, we would be required to buy a two-year supply of a product, and that's not something that would be a solution for us, and we don't see that from other suppliers, quite frankly. We don't see this.

We have them quote to a specific volume level, and the pricing is fixed at that point, and if there are changes in volumes, then that's something that's subject to negotiation, but this price list approach that Quaker City has taken is totally inconsistent with the rest of our supply base.

I don't know if that answers your question to Mr. Kaplan, but these are the factors that come into play when we think about supply on a go-forward basis.

MR. KAPLAN: That's very useful. Thank you, Mr. Czerwinski.

Sort of shifting a little bit to more of a product question, I believe it was Mr. Lowe who mentioned, in the opening segment, touching on the shift towards -- I guess it's been mentioned by a few

different people -- the shift towards steel pistons versus aluminum pistons with the ni-resist insert.

I would like perhaps if either of you, or both of you, Mr. Turcott and Mr. Czerwinski, could speak to that a little bit and perhaps explain to me, in kind of laymen's terms. From what I understand, aluminum is generally lighter than steel, perhaps not with all types of steel, but with steel, on a whole, in which case, why are the EPA regulations resulting in the production of heavier pistons?

Perhaps I'm off in my assumption there, but maybe you all could just describe a little bit this issue of the steel versus the aluminum pistons and what effect that has had on your business, your purchasing, either would be fine.

MR. TURCOTT: My understanding is, as kind of a rule-of-thumb, and this isn't perfect, but over 450 horsepower, you can't use aluminum pistons. It's probably lower than that to really be effective. I think you're really pushing it if you probably go over 400 or 410.

Under that, you can use an aluminum piston. Obviously, you think in terms of weight and things, and then you do need the ni-ring insert.

From what I know about the industry that

uses these heavier engines with the higher horsepower, there is bigger and bigger demand for that, and I think we could probably speculate, with this big infrastructure package coming, there is going to be a big demand for those types of engines and that type of equipment that builds infrastructure. Consequently, there is going to be a bigger demand for steel pistons.

You probably will always have some demand for aluminum ni-ring pistons, but it's diminishing from what it was in the past because of customer demand and their customers' demands.

As far as the EPA, who knows why they do what they do? I mean, I know they have good intentions and all that sort of thing. Some comments were made earlier about the EPA is going to be creating kind of a cyclical change. It's not necessarily a cyclical change.

If a company, say, with the change that occurred in '06-'07, if their engine, at the time, they said, "Well, why would we just meet this standard? Why don't we make certain that whatever engine we're developing now, in '06 or '07, will also meet the standard in '10 or '12?" They are not going to need to change their engines. They are going to be

using the same steel pistons or aluminum pistons, whatever the case may be.

I don't know if that helps you understand the question. I could do more to try to clarify, if I could.

MR. KAPLAN: Just briefly, my main question is the aluminum versus the steel. You touched on the horsepower issue, but, let's say, two engines with the same horsepower; the aluminum, I believe, would weigh less than the steel, just the piston component, in which case, why is there a movement more towards steel, because a lighter engine, in my mind, would be more efficient? These are, obviously, very simplistic terms.

MR. TURCOTT: I think, basically, it's a performance issue and an endurance issue over time. These engines aren't like car engines, where you're talking, "Well, hopefully, it will go 100,000 miles or 150,000 miles." Here, you're talking in terms of hours, in many cases, certainly for marine engines and construction equipment. These companies that produce these engines; they have warrantees on them. A hundred thousand hours is not unusual.

So steel is much better. It's more expensive. I think, when you get to that level, the

weight is not all that much different. I could be wrong on that, but I think it's a matter of power, it's a matter of endurance, it's a matter of how long they are going to last, and what kind of performance. It has to have consistent performance. There's heat concerns in there, among other things. So that's basically as far as I know about that.

MR. KAPLAN: Thank you. Mr. Czerwinski, did you have anything you wanted to add on that?

MR. MINTZER: Mr. Czerwinski is the purchasing manager for inserts but is less familiar with downstream piston market changes, so we would rather just address that in our brief.

MR. KAPLAN: That's fine. Thank you. I have no further questions at this time.

MR. ASCIENZO: Thank you. Mr. Bernstein?

MR. BERNSTEIN: Thank you. I would like to thank these witnesses as well for coming to Washington to testify today.

First of all, let me see if I can clarify the record concerning who the players, concerning the -- products are. My basic understanding was that the two firms represented at the table, Federal Mogul and Karl Schmidt, were the two U.S. producers of diesel engines that use aluminum pistons. Is that correct?

Are there other manufacturers of diesel engines using aluminum pistons?

MR. TURCOTT: Karl Schmidt Unisia does not produce engines.

MR. BERNSTEIN: Okay.

MR. TURCOTT: We only produce pistons that are placed in engines.

MR. BERNSTEIN: I appreciate that. Let me rephrase the question. I, obviously, phrased the question incorrectly, and I appreciate the correction.

Do the two firms at the table represent all aluminum piston production in the U.S.?

MR. TURCOTT: No.

MR. BERNSTEIN: Who are we missing?

MR. TURCOTT: Mahle.

MR. BERNSTEIN: Okay.

MR. TURCOTT: And there's a lot of companies that make their own: Toyota, Honda. As far as I know, they produce their own aluminum pistons inside.

Now, are you talking about aluminum pistons with ni-rings or just aluminum pistons?

MR. BERNSTEIN: Aluminum pistons that are used in diesel engines. These are supposedly --

MR. TURCOTT: I don't know. I know Federal Mogul does. I know we do. I don't know.

MR. BERNSTEIN: Are there any other major players out there in the U.S. who would purchase ni-resist piston inserts?

MR. TURCOTT: I don't know. Maybe Mahle might.

MR. LOWE: As Mr. Turcott said, Mahle is known to produce aluminum pistons that do use ni-resist inserts in the United States.

MR. BERNSTEIN: When we're talking about these other types of pistons that are used in diesel engines, such as, particularly, the steel one, are we then dealing with another group of piston manufacturers?

MR. LOWE: No. Federal Mogul produces both steel pistons that do not use ni-resist rings or ni-resist inserts, and it produces aluminum pistons that do use ni-resist inserts.

MR. BERNSTEIN: Mr. Turcott, that statement is also correct for Karl Schmidt.

MR. TURCOTT: Yes.

MR. BERNSTEIN: Okay. But what I'm trying to get here, are there any producers that produce the steel pistons that don't produce aluminum pistons that you know of?

MR. MINTZER: I don't think we know.

MR. BERNSTEIN: Okay. I think it would be helpful to us if you could generate such information with respect to your own firms so we can gauge this assertion concerning the greater acceptance of steel versus the aluminum pistons, if you could provide any data you might have that can illustrate your contentions about this shift in demand.

You've given us a general assertion that there is greater demand for the steel pistons and, therefore, less of a demand for aluminum pistons. If there are any empirical data you can provide for us that would corroborate that, or from which we can verify your assertions, that would be helpful.

MR. TURCOTT: Excuse me, Mr. Bernstein.

MR. BERNSTEIN: Sure.

MR. TURCOTT: I think you may have overstated the case. This is a trend that's moving forward. We see this as a trend. It's not like overnight they are going to go from gas to diesel.

MR. BERNSTEIN: Well, to the extent we're looking at data from the last three years, to what extent are we going to see fewer diesel engines, the share of the aluminum pistons vis-à-vis the steel pistons going down? Are we talking about something very incremental and gradual or something fairly

sharp?

MR. TURCOTT: I think it's probably incremental.

MR. BERNSTEIN: Incremental.

MR. TURCOTT: I think that's it. Part of the problem, too, you have, especially in this period, is such a volatile change in the market, for economic reasons that were beyond the normal market. You had the '06 situation with the emission controls in diesel engines, and they may show up again in 2010 or '11. We're not talking, like, a dramatic changeover where everybody is going to go from having a record player to using a CD player. It will be a gradual thing that's going to be determined by demand. It may go in fits and starts.

MR. BERNSTEIN: Okay. Any historic data you have that would allow us to analyze this issue would be most useful because we have gotten investigations where sometimes there is a very gradual substitution of a substitute product with a like product.

I once had an investigation, several years ago, where they knew there was some substitution going on. They thought the domestic product would continue on in some sort of production for the foreseeable future, and it turned out that it wasn't being

produced anymore three years later.

Again, any information you may have that would allow us to gauge this trend, both historically, during our period of investigation, and immediately, for the period immediately going forward, in 2009, to the extent we need it for threat analysis, would be useful for us.

Let me ask, because this was a little bit unclear to me from your responses to Mr. Kaplan's questions, Mr. Korff testified to us earlier today that his impression was that the demand for the downstream products incorporating the diesel engines with aluminum pistons tend to spike when EPA emissions requirements change. Do you agree with that?

MR. TURCOTT: I would agree with that. It occurred probably in '06, where there was a big spike.

MR. BERNSTEIN: Okay.

MR. TURCOTT: As far as going forward, I don't know if it's going to happen or not. There's a lot of factors that would affect it. Perhaps everybody that purchased all of those engines in advance in 2006, they may be running just fine when those changes hit in 2010. It doesn't mean they have to come off the road; it just means that any new ones that are sold at that particular time, going forward,

have to meet those emissions.

With the current economy, I can see people saying, "I'm fixing the one I bought in 2006. I'm going to run it to 2015, if I can."

At some point, they are going to have to change over because the engines in those vehicles will just not be worth maintaining or repairing anymore. They will have to buy the ones with the different emissions, and maybe by then, it's changed twice. Who knows?

MR. BERNSTEIN: Thank you for your response.

I now have a question for the lawyers. Do you agree with the definition of the domestic like product proposed in the petition?

MR. LOWE: Yes. On behalf of Federal Mogul, we do generally agree with the definition of the domestic like product.

MR. BERNSTEIN: Okay. You're not proposing, for the preliminary investigation, we define the domestic like product differently.

MR. LOWE: No.

MR. BERNSTEIN: Mr. Kane, do you have anything to say to that?

MR. KANE: No. We take the same position.

MR. BERNSTEIN: Okay. Thank you.

In the testimony thus far, I haven't heard identified any appreciable differences between the imported products from Argentina and Korea.

First of all, let me ask the industry witnesses, are you familiar with both the Argentine product and the Korean product?

MR. CZERWINSKI: I'm only familiar with the Korean product.

MR. BERNSTEIN: Okay. Mr. Turcott?

MR. TURCOTT: I had only heard of the Argentine product. I had not heard about their product until this petition was raised.

MR. BERNSTEIN: Okay. Just out of curiosity, I guess, Mr. Turcott, have you ever explored sourcing the product from Korea?

MR. TURCOTT: No.

MR. BERNSTEIN: Okay. Mr. Czerwinski, have you explored sourcing the product from Argentina?

MR. CZERWINSKI: We have, at different times, over the last couple of years, explored the possibility and have not developed any business case to award them any business, to my knowledge.

MR. BERNSTEIN: In your exploration, did you identify any product distinctions between the two?

MR. CZERWINSKI: No, we didn't.

MR. BERNSTEIN: Okay. I'm going to now ask a question of counsel, and, based on the testimony that I've heard so far, I hope the answer is no.

Do you have any objection to the Commission cumulating, at least for its material injury analysis, the subject imports from Argentina and Korea?

MR. LOWE: No. Federal Mogul does not have any objection to cumulating the subject imports.

MR. BERNSTEIN: Mr. Kane?

MR. KANE: -- the fact that these are two separate markets that have existed independent of each other for at least the last 10 years.

MR. BERNSTEIN: What do you mean by "different markets"? I'm not following along on that.

MR. KANE: Mr. Turcott just testified that he was not aware of the Korean market, and Mr. Czerwinski just said that they were not involved at all, except in the form of exploration, into the Argentine market.

MR. BERNSTEIN: Do you have a position you can articulate currently on why that would be grounds for not cumulating the subject imports?

MR. KANE: We'll have to review that and see about.

MR. BERNSTEIN: Okay. I would appreciate it

if you would. A distinction doesn't immediately come to my mind, but, certainly, we're interested in your argument.

I guess my next question is a request. We have heard quite a bit from this panel about this 2004 letter that Quaker City sent out, basically, and I'm going to paraphrase this very roughly, highly encouraging purchasers to purchase ni-resist piston inserts from Quaker City if they wanted a domestic source retained.

If you have this letter in your records, we would appreciate your submitting it in the post-conference submission. By the same token, I would make the same request of Quaker City. If you have this letter, we would appreciate seeing it as well to make sure that everybody is talking about the same type of correspondence.

Let me ask the industry witnesses, since this 2004 communication, have there been communications or other reasons that you do not perceive Quaker City to be a viable business or to be a company that is not necessarily going to be producing ni-resist piston inserts for the duration of any purchase order you would make?

MR. CZERWINSKI: Let me just preface my

answer by saying that I took over the purchasing responsibility of ni-resist piston inserts in the early part of 2006,and, during a reorganization within our department, I turned over purchasing responsibility, in the middle part of 2006 through the middle part of 2007, and so I can't necessarily comment on that period of time, from mid-'06-to-mid-'07, as to what type of communications might have taken place between Quaker City and my predecessor.

I do know that there was a proposal made by Quaker City, at one point in time, that looked to get some of the business back, and it was kind of an all-or-nothing proposal. There were a lot of stipulations in that proposal that, I think, at the time, we couldn't agree to.

So, in terms of communication, I have not personally had any communication with Quaker City in the time that I had purchasing responsibility for these parts, dating back to August of 2007. So there have been no proposals made, at least to me, personally, over that period of time. So does that --

MR. BERNSTEIN: I think you've answered the question to the best of your ability.

Mr. Turcott, do you have anything to add?

MR. TURCOTT: Are you talking about a

program, or are you talking about a spot order?

MR. BERNSTEIN: If you would like to distinguish the two in your remarks, feel free to do so. It was sort of an open-ended question.

MR. TURCOTT: When we talk about a program, we're looking at five, six, seven, eight, nine years plus another 10 or 15 years of parts and service. Generally, in contracts that come out of the automotive industry or the trucking industry, engine industry, you have to provide for the life of the engine that this company is going to manufacture.

Subsequent to that program dying, and they are not using that engine anymore, those engines are still in use in the public economy. They need to be repaired, so you have to make sure that you can provide, in our case, pistons, say, in this case, aluminum pistons with those inserts, for whatever it is, the next 10 years or 15 years, so that they can provide them to their dealers, et cetera, and so forth.

With respect to a program, you've got to be able to get components that customers, the engine manufacturers, are going to accept, in terms of a total price.

On a spot basis, we did that with Quaker

City, as I testified earlier. We went to them. In fact, I believe it was, I think, in 2008, we represented, like, 88 percent of their sales for these things, and 56 percent of their sales in 2007, but we needed these on a spot basis.

We do have, I think, probably only one program left where we're providing service parts for some older engine, and, from time to time, we need ni-ring inserts for those particular pistons, but it's not like thousands. You might need a couple of hundred, or you might need a thousand every year and a half, or something to that effect, because there is very little demand, but you have these obligations to the customer.

On a spot basis, fine, we did that in '07 and '08, so we don't have any problem with that. The big problem -- the fact that, in '07 and '08, because we had to, we adhered to their self-serving program of surcharge. For a long-term program, we couldn't do that. There is no way.

MR. BERNSTEIN: Thank you for your answer.

MR. TURCOTT: You're welcome.

MR. BERNSTEIN: Mr. Lowe, I believe, in your presentation, you had spoken about the substantial quantity of imports from nonsubject sources in the

market. Where are these imports coming from?

MR. LOWE: I hesitate to comment on that question because I think that the information could be considered business proprietary, given that it was submitted in the form of a questionnaire response.

MR. BERNSTEIN: Okay. Let me ask this, and let me ask a question that I think is not proprietary.

As I understand it, are any of these imports from nonsubject sources being purchased by Federal Mogul or KSU, if I can ask you all that?

MR. LOWE: Well, I can say that Federal Mogul is purchasing only from Korea and periodic purchases from Quaker. There have been a couple of relatively small orders over the last several years, but, otherwise, Federal Mogul is sourcing from Korea.

MR. BERNSTEIN: Okay. With respect to Karl Schmidt, the general impression I got from your testimony, and, unfortunately, I don't have either perfect note-taking skills or the advantage of a transcript, was that all, or essentially all, of your import needs were being met from your Argentine supplier. Is that correct?

MR. TURCOTT: More or less, yes.

MR. BERNSTEIN: Okay. I think what I would ask for counsel for is, it would be interesting, I

guess, in your response, to identify not only where these nonsubject imports are coming from but who seems to be purchasing them, and how this relates to the question I asked at the beginning of my series of questions about who the other players in this market might be, in addition to the ones represented in this room right now.

MR. LOWE: Okay. We will certainly address that in some detail.

MR. BERNSTEIN: Okay. Thank you.

Could the industry witnesses explain how you determine when to purchase ni-resist piston inserts, regardless of source, as far as the timing of purchases? What affects that?

MR. CZERWINSKI: The demand from our customers comes into our manufacturing plant, and they develop schedules for manufacturing, including the purchase of component parts, which this would be considered a component part of an aluminum piston, and then orders are placed accordingly to the suppliers.

MR. TURCOTT: Basically, the same thing. It's a just-in-time situation mostly.

MR. BERNSTEIN: Okay. Thank you. So do you regularly keep piston insert inventories on hand, apart from needing to be able to satisfy perceived

orders or perceived needs from your customers?

MR. TURCOTT: KUS tries.

MR. BERNSTEIN: Okay. So this is not something -- is there anything that, if you see nickel prices are going down, and you could obtain these things less expensively, that this is going to influence your ordering pattern?

MR. TURCOTT: Probably not. It's really dependent upon the particular ni-ring insert that's demanded from a customer on a just-in-time basis.

MR. BERNSTEIN: Okay. Thank you.

My final set of questions -- I guess, two questions, and these will be to Mr. Lowe.

The first one is, and perhaps you should explain this in your post-conference submission, your statement was, any negative price effects were caused by the nonsubject imports rather than the subjects. I would be interested in hearing your rationale for that, given that the entities that purchase the domestic like product don't seem to purchase the nonsubject imports as well.

If you could explain your train of logic there, I think it would be useful to us.

MR. LOWE: Okay. Yes. Again, I think it would be considered business proprietary information

from the submitter, so we'll address that in our post-conference submission.

MR. BERNSTEIN: The other thing was a statement you made that you said we should investigate what "reasonable price levels" are. I'm curious, as a legal matter, what discretion you think we have to investigate whether or not the domestic producer is charging a price that is, in some sort of abstract level, reasonable.

I mean, if the imports are, in fact, unfairly traded, at least for purposes of an underselling analysis, don't we just look at what's charged for the domestic product and what's charged for the subject imports? Are we supposed to engage in some sort of inquiry as to whether the domestic product is reasonably priced?

MR. LOWE: Well, what I think I referred to, as far as the reasonableness, is the pricing practices that Quaker City has used in the past. There has been some amount of discussion concerning the manner in which they assess these surcharges.

In the case of Federal Mogul, they assess a surcharge, Quaker does, on all of the metallic content of the insert, and they also require, as we said, when they submit a proposal for a purchase, that the

purchase include a number of parts. They list a range of parts that they expect the purchaser to buy, and they also list a set quantity of each one of those parts that they expect the purchaser to buy.

So the point is that these are, you might say, conditions of supply competition that have helped to cause Federal Mogul, as the word "risk" was used, in various senses, to decide that sourcing from a different supplier is more in its interest.

MR. BERNSTEIN: From a commercial context, I understand the reasoning perfectly very well, which is why I'm not directing this question to the industry witnesses.

As a matter of how this affects the Commission's price effects analysis, this line of reasoning is a little less clear, and if you could expand on it in your post-conference submission, I think that would be helpful, and, with that, I have no further questions.

MR. LOWE: Okay. Thank you. We will.

MR. ASCIENZO: Ms. Mic?

MS. MIC: Thank you all for coming here today and for your participation in this investigation. My colleagues addressed all of my questions. I have no further questions. Thank you.

MR. ASCIENZO: Mr. Boyland?

MR. BOYLAND: Thank you. Thank you for your testimony.

Mr. Lowe, this question goes directly to you, and I think it sort of goes to the question that Mr. Bernstein had, but it's related to my section, the financials. You sort of suggested that we should be looking at their broader financial results in the centrifugal unit as a whole as opposed to just the subject merchandise.

That's not our standard practice, so I wanted to kind of get a little more clarification on why we should be deviating from our normal practice, which is to look at the subject product.

MR. LOWE: Right. The point that we're trying to make is that Quaker uses the same equipment to produce not only the ni-ring inserts but also to produce other centrifugal products, and, in so doing, it has been able to shift production in the past. This is on its website. It makes that point, and the witness today stressed that as well.

Part of what we're saying is that, as demand for the ni-resist inserts has declined, and, not to digress, but that is a phenomenon that has been taking place since around the early nineties. The stricter

emission controls started coming into force then, and, as far as the steel inserts, why they are preferred, or why they function better, to meet certain emission controls, it has to do with the heat generated in the compression for these diesel engines.

I'm no expert on that, I don't want to try to address that in any detail right now, but the point is that, over the course of the last decade and a half or more, the demand for the aluminum pistons with the ni-resist inserts has declined, and, recognizing that, the Petitioner has used the same equipment to produce other products.

We believe that when it shows profitability, or a lack thereof, as to its production of the ni-resist inserts, the fact remains -- capacity utilization is another example -- that if the Commission were to collect the information on how this same equipment is being used to produce these other products, it very well may show a greater level of profitability and a greater capacity utilization, as well as other economic or financial factors that you consider relevant.

MR. BOYLAND: Thank you. I have no further questions.

MR. ASCIENZO: Deborah McNay?

MS. McNAY: Thank you for coming today. I do have a few questions.

Regarding service parts, are the ni-resist piston inserts the same OE as aftermarket parts, or are there different chemical compositions?

MR. TURCOTT: It's the same piston. It's the same insert.

MS. McNAY: Okay. Thanks.

I have a few questions about the process involved in developing an engine and pistons. One of the first things I would like to go to is if you could describe the process of incorporating an insert into the piston. What goes on at the plant to create that? Briefly.

MR. TURCOTT: Well, the Wizard of Oz comes in. I'll do the best I can.

MS. McNAY: Okay.

(Laughter.)

MR. TURCOTT: To the best of my knowledge, this piece here, you see this, is put in when they mold the piston. It's molded in. It's a solid piece. It comes like that. It's fit in inside here and the mold is made and the casting comes out, and when it's machined, the groove is cut into that Ni ring piece, as well as all the rest of this stuff. This is the

real important part, but it's this part here that it's grooved -- they cut a groove, they put a ring in.

That's the best that I know it.

MS. McNAY: Any other comments or elaboration?

MR. CZERWINSKI: I have no ability to elaborate on that, sorry.

MS. McNAY: Okay. Thanks.

MR. LOWE: It is worth adding, and I've picked up this information since I started working on this case, but the chemical composition of the Ni-resist insert is such that the expansion of the piston in the course of the combustion within the engine, it needs to expand on something similar to, on relatively the same rate, and so that's why the high level of nickel, as well as a certain amount of copper, I believe, combine to make the expansion, when heated, of the inserts, equal or very close to equal to that of the piston, so when they are molded into the piston, they take on that quality, and then you have the friction that was discussed earlier for why these inserts are added to begin with.

MS. McNAY: Okay, thank you. Could you discuss a little bit the process of piston design and development? How early are you brought into the

process with the engine maker? Do they specify the piston specs, or is it the other way around, or does it happen, you know, case by case?

MR. TURCOTT: It's proprietary.

MS. McNAY: Okay. Okay.

MR. TURCOTT: It depends on the customer. It depends what they want to do. It gets to be quite complex in terms of who is responsible for what.

MS. McNAY: Okay. I mean, if it's something you could describe a little bit more in post-conference --

MR. TURCOTT: Basically, they come up with programs. They have huge engineering staffs. We are in contact with them all the time, as is Federal-Mogul, as is Mahle. We bid on these programs. We try and make sure that, you know, we do our best to persuade them that our piston design or whatever the case may be is best suited for whatever engine program they are going to have.

That involves sending prototypes back and forth. We make them to whatever we think, and then they test them and then it goes -- so it could go on a long time. It depends how fast these programs are being pushed in a particular company, be it General Motors or Ford or Chrysler or Cummins, John Deere,

Harley Davidson, wherever. I mean, they may stretch out seven or eight years before it even comes to fruition or it dies.

Their engineers do have a lot to say about what they like, what they don't like, what they want to do, you know, that sort of stuff. That's about as much as I can tell you because I don't do them.

MS. McNAY: Okay. We had another comment?

MR. CZERWINSKI: I have no ability to comment on that one either, sorry.

MS. McNAY: Okay. That's fine. Who actually, then, specifies the piston insert supplier? Is that, once again, coming from the engine manufacturer, or is it from the piston maker?

MR. TURCOTT: Well, my understanding is that we go out and find the insert supplier. When we propose a model, if it's going to require that insert, then we will say, this is it. We have to know up front what it's going to cost us for those inserts, as part of the whole project that goes forward, and I mean, they are always looking for cost control. They audit; well, can't you do something with this, can't you do something with that, can't you do something with this?

So there's a lot of negotiation that goes on

with it, but it depends if you are just providing the piston or if you are providing the piston with the components, the rings or the pins or the connecting rods or whatever.

MS. McNAY: Okay. Could you also describe a little bit the process of certifying a supplier of the piston inserts, or suppliers in general, and how long the process is?

MR. TURCOTT: Well, I mean, just in general, it's my understanding that all of us have -- I don't know what the procedures are. I've never gone to look.

MS. McNAY: Okay.

MR. TURCOTT: They all have their own basic audit sheet. It depends on their certification, like we are TS-something certified, and 9000 certified and all required by the customers. We have our people go to visit, you know, their plants, and they do check all their processes and controls and whatever. It's quite complicated, and it's not only done by us, but you know, our colleagues from Europe will also go in because they have their -- we work together to buy equipment and do all that sort of stuff to make things, so they want to go in and see too, because they are also interested in things on a global basis,

and sometimes it's approved by one group and not approved by another group, or vice versa.

It's quite rigorous, is my understanding. It's not like making thumbtacks, unfortunately.

MS. McNAY: Okay. Thank you.

MR. CZERWINSKI: We have a similar process at Federal-Mogul. Any new supplier must meet some minimum criteria, and of course, quality certification is part of that, as Mr. Turcott has mentioned already. In addition, we do some investigation in terms of gathering information on the supplier's customer base, their sales revenue, number of employees, some basic background of the company, and then we make an assessment based on their quality certification and the information gathering as to whether we would proceed to the next step, and that next step would be to go through a full-blown quality audit where we send a supplier quality engineer to the supplier's facility to conduct an audit of their quality systems to ensure, as Mr. Turcott said, that they have the controls in place to ensure consistent, high quality product, and the result of that audit is a score, and if the supplier meets a certain score, then they are approved for pursuing them further as a production source.

In terms of evaluating the product, from that point, then we ask the supplier to submit samples off of their production process and then we evaluate those samples based on dimensional checks, metallurgical checks, grain structure analysis, et cetera, and assuming all of our specifications are met, then they are approved as a production source of that material.

MS. McNAY: Is Quaker City certified for both or either of you at this point, or --

MR. TURCOTT: Not that I am aware of.

MS. McNAY: No?

MR. CZERWINSKI: I'm sorry, I don't know how to answer that question. I mean --

MS. McNAY: Are they certified as a supplier for either of you, or have they been at any point, I guess?

MR. CZERWINSKI: I don't know if we have ever conducted a quality audit at Quaker City.

MS. McNAY: Okay. Thank you.

MR. TURCOTT: I think we did, and I think for on a spot basis, they were somewhat approved, and as I talked about earlier, I mean, they have had some problems on the audit.

MS. McNAY: Yes, you mentioned.

MR. TURCOTT: They have worked to improve them, and then when it came to global stuff, they just kind of, the quoting and stuff fell apart on them, so --

MS. McNAY: Okay, thank you. One other area. I think, Mr. Lowe, we talked about export markets for these types of products. Could you expand on that, what areas, what regions of the world you were specifically referring to, and why you would expect to see growth in some of these markets for this type of product?

MR. LOWE: I don't have on hand specific facts, but what the point goes to, that yes, there are other markets in the world where pistons are made, in particular, aluminum pistons that utilize the Ni-resist inserts, and so perhaps in our brief, after today, we could expand on those markets in more detail and describe specific instances.

MS. McNAY: I would appreciate that, for either group, if you could sort of expand a little bit on what the global market might look like for these products, and key countries that are supplying or manufacturing, and also key export markets, that would help us in our deliberations.

MR. TURCOTT: We don't export any.

MS. McNAY: Okay. All right, thank you. That ends my questions. I appreciate it. Thank you.

MR. ASCIENZO: Mr. Deyman?

MR. DEYMAN: I'm George Deyman, Office of Investigations. One of my colleagues requested that you submit the 2004 letter from Quaker City for the record, but one of you mentioned a second letter that followed immediately after that on the price increase. Could you submit that letter also, and that would -- if the gentleman from Quaker City could also submit that letter. Thank you.

In many of the products that we investigate, the purchases are made with so-called requests for quotations. I take it that that is not the method that is used by you all for this product, is that correct?

MR. TURCOTT: We request quotations, yes.

MR. DEYMAN: You do?

MR. TURCOTT: Yes.

MR. DEYMAN: So when you need a certain part, do you go to various suppliers and ask for their best price? There are only three or four suppliers here, so do you do that in each case?

MR. TURCOTT: I don't do it, so I don't know. I mean, it depends on the case. I depends on

what it is. Most of our stuff comes from Clarendo Appel, and it has come for over 10 years. I mean, they are a global supplier. Now, like I said before, we are always trying to lower our risk. I mean, after all, it is a foreign country. It's not always that stable, their governmental process.

So we are concerned about those sorts of things, and so we are always looking for another supplier, alternative supplier, somebody else, you know, just in case, or maybe they are better. It's kind of the way it works, and you have so many factors that are involved. First of all, you have to have the programs, and then try and find people, like, we had never heard of the Korean company before this petition came through, and somebody mentioned some others today I wasn't aware of either, so.

MR. DEYMAN: Mr. Czerwinski?

MR. CZERWINSKI: I would say that we do issue requests for quotation, and that's done on a periodic basis, let's say. It's not done every single time we need a part. If there is a request for a quotation that goes out to a supplier, and we have an established price for that particular SKU, we continue to buy at that price until something changes, and so it's considered fixed pricing from the point in time

at which we receive the quotation from the supplier and we begin issuing purchase orders from a base price standpoint that pricing remains fixed, I would say indefinitely.

So we don't RFQ every single time we have a need for a part.

MR. DEYMAN: And I suppose that you also don't go out to each of the three or four suppliers each time you need a part. For example, you haven't gone to Argentina, I believe, and so forth. Could you explain?

MR. CZERWINSKI: That's correct, but what does change is the surcharge, and as we've talked throughout the day today that the surcharge does get updated, in some cases, quarterly. In the case of Quaker City it was monthly, but -- so that's really the only variable, if you will, in terms of the cost of the part.

MR. DEYMAN: All right. I have a couple of questions on terminology. I heard a couple of you mention the term Ni ring. Is that what these subject products are called in day-to-day parlance?

MR. TURCOTT: Yes.

MR. DEYMAN: Ni ring?

MR. TURCOTT: Ni rings.

MR. DEYMAN: Or if we used that in --

MR. TURCOTT: Ni inserts. At our company, we usually refer to them as Ni rings.

MR. DEYMAN: Is that the case also with your company, Mr. Czerwinski?

MR. CZERWINSKI: Yes, Ni-resist piston insert, Ni ring, ring carrier, alfin. They are all interchangeable terminology.

MR. TURCOTT: It depends on when you came into the business, I think.

MR. DEYMAN: Okay, and I believe, Mr. Czerwinski, I think you mentioned your company's acronym, KUS. That would be Mr. Turcott, I guess.

MR. TURCOTT: Karl Schmidt Unisia, Inc., is referred to as KUS.

MR. DEYMAN: KUS, not KSU?

MR. TURCOTT: And you would like an explanation of why it's not KSU?

MR. DEYMAN: Yes. Right, right.

MR. TURCOTT: I wondered myself when I joined the company. That was like five-and-a-half years ago. Karl Schmidt Unisia, although the company's roots go back to 1944 as Badger Pistons, then Safeguard among other names, it's an American company based in Marinette, Wisconsin. It's gone

through various ups and downs over the years and it's been bought and sold, whatever. At one point in time, basically in 1991, Kolbenschmidt owned it, KS Kolbenschmidt out of Germany, and decided they wanted to have a closer relationship with Japan, and so they created a joint venture, and they put in the assets which are now, you know, Karl Schmidt Unisia into there, with the Japanese partner, so we are now majority German, partially Japanese.

Well, when they created this joint venture, they named it Karl Schmidt Unisia. However, in Japan it's disrespectful to have your name at the end. So we said, okay, when we refer to it, we will refer to it as KUS. Now, Unisia was the name of the, I don't remember the full name of the company from Japan, but that was part of the -- it was Atsugi Unisia Corporation or something. So that is why it's KUS.

MR. DEYMAN: All right. I appreciate that. Thank you.

MR. TURCOTT: You're welcome. I did too. I was using KSU for a long time.

MR. DEYMAN: My last question or comment is, on page 9, footnote 11 of the petition, the fact that Quaker City contends that the Argentine firm Clorindo Appo has been investigated by Customs and Border

Protection. If you have any -- I know you mentioned that you made some comments earlier, but if you can provide any further information in your post-conference brief, it would be very helpful.

MR. TURCOTT: We will do our best.

MR. DEYMAN: Thanks, and I have no further questions.

MR. ASCIENZO: Thank you very much for your presentation and your answers, and I'll start by apologizing for calling this product nickel-resist. I did that on my opening remarks. It's Ni-resist.

Mr. Turcott, you had mentioned something, and Ms. McNay followed up, but I just want to make sure. You said, I think you said, that QCC failed an audit, and was that a quality audit, and what are the ramifications of that? What happened?

MR. TURCOTT: Well, our people went there to their plant and they had some issues. I don't remember what the certain issues were. One of them was housekeeping. I think there was other stuff. Apparently, they worked on them to improve them, and I believe it was like, comments that I have seen were like by November they had done a sufficient job at that point to be on an equal playing field with Clarendo Appel as far as -- because that was also the

time when they accepted the LME surcharge formula, as far as going forward and going through the global quoting process, because there aren't that many that supply these things, so our German side wants to know, see if they are available for them as well, because they have, I mean, they use them in France and Czechoslovakia, Germany, Brazil, wherever, and Clarendo Appel does ship to all those places except for Germany.

MR. ASCIENZO: Thank you, and actually, you just touched on my next question. I think both parties have indicated displeasure with the fact that QCC wanted also to have surcharges for copper. Do you know offhand, out of a Ni-resist ring, what percentage of the cost is the copper? If you don't know, you don't. I mean, I don't know.

MR. TURCOTT: I don't know if there are some other elements in there too. It's basically, it's the transparency of their formula.

MR. ASCIENZO: Okay. So that's what I was going to get at, because I presume you source many different products from many different companies, and nickel, obviously, is big, but copper might be big. You might gather parts that have molybdenum or other commodities that have gone up and down in price big-

time. So I am just wondering --

MR. TURCOTT: Part of the equation here is how much can be passed through in our price to our customers, who are in the multibillion dollar range. If they won't accept them, the volatility of these other elements, be it copper or sand or whatever the case may be, we can't accept them either because we can't pass them through. They will -- I mean, this is not an easy thing to do.

Getting them to accept the nickel surcharge and getting them to agree to a particular measure of how that's done, like Mr. Czerwinski said, it could be every quarter, it could be every six months. They are all different. How they will accept these changes, what the range of the change has to be before they will, you know, accept the change, how much of the change they will accept, it gets to be quite complex.

You can't measure apples to apples with suppliers if everybody is using the LME nickel surcharge and one person uses a formula with all this other stuff in it. You know, we want chicken soup with just chicken. We don't need the peas and the corn and the beans. That's all assumed. Does that help you?

MR. ASCIENZO: Yes, it does. Thank you.

MR. CZERWINSKI: I think, just to kind of expand on what Mr. Turcott just said, the thing about the nickel is that, because it is an LME index, it is something that, that data, everyone has access to it and it's recognized throughout the market as something that we can track and see what the LME does day to day, month to month, whatever, these other things that come into play, and not necessarily copper because that's also a commodity, but with some of the other things that we talk about where Mr. Korff said that they are passing on their actual cost, I mean, unfortunately, when we get into negotiations with suppliers, we either, you know, preferably, we are agreeing on an index, but if there are other elements that they feel that they want to try to pass on to us, we look for some verification of that, okay, and I think that's fairly reasonable, and when you talk about trying to verify five or six or seven other metallic elements of their casting in the absence of evidence, of invoices of what they paid for this material, as a purchaser, it's difficult to accept.

Not that we don't trust our supply base, but the evidence needs to exist as to what they paid for these other metallic elements and in the absence of, really, in the absence of invoices to prove what was

paid for those, you know, it's generally not accepted.

MR. ASCIENZO: Thank you very much. That was quite informative.

Do we have any more questions from this panel? Mr. Kaplan?

MR. KAPLAN: Mine is more of a request, actually just touching upon what Mr. Ascienzo and Mr. Deyman were saying and what has been said kind of throughout the discussion from this panel. Whatever information that there is that can be provided talking about this nickel surcharge and how it is apparently an accepted norm in the industry, and if there are some examples of sales transactions or discussions that can be provided as part of the post-conference brief, that will just illustrate for us in going through this information what exactly the surcharge consists of and how, perhaps, it may or may not be standard across the industry.

That would certainly be helpful, and I have no further questions. Thank you.

MR. ASCIENZO: Does anyone else have any further questions? With that, let's take an approximate 10-minute recess, and then we will start the closing remarks, first of all with the domestic panel. Thank you very much.

(Whereupon, a short recess was taken.)

MR. ASCIENZO: Welcome back, gentleman, and please start with your comments when you are ready.

MR. JOSEPH KORFF: I would like to make a few observations to some of the testimony in regard to our surcharge formula, which seemed to be a topic. I personally created the surcharge formula. I think it was 1989, and at that time, metal components were varying somewhat, and we basically made a weighted cost average of all the metal components that go into Ni-resist, and just factored in the prices we were paying for each one.

Over the years, the surcharge formula is -- and at that time, I offered anybody who was interested -- at that time, only Zollner Corporation really was asking, which is now part of Karl Schmidt, and they were making diesel engine pistons in that plant, and they were the only ones interested in the surcharge formula and I said, you are welcome to see my invoices anytime you wish. There is no hocus pocus here. Whatever I pay gets translated into that surcharge formula and it is what it is.

The nickel market LME surcharge that you heard about is based on a $9,000 per metric ton base level of nickel on the LME cash market, averaged over

a month's period, and it's based on the nickel content of the Ni-resist insert, which is roughly 15%, with no other consideration to any other metallic material. We did offer that to Karl Schmidt. Federal-Mogul never asked us for it, so we didn't offer it to them.

Karl Schmidt did, and another customer did as well. We did offer that to them, and we priced, we gave them an entire pricing sheet with the $9,000 per metric ton LME as the base number in our base prices. We also, contrary to prior testimony, we did offer shipments, freight delivered to all of the Karl Schmidt plants that they requested us to quote to, and we did -- I had long negotiations with the freight carriers, our freight forwarder, to get a price for contained load shipments to all of their locations, and we also entered conversations with my bank about hedging against the euro so that we could offer our prices in euros, and we did both of those things.

There was another comment that I think was from Federal-Mogul, that we offered them an all-or-none price sheet, and that was after we had lost business, we went in to Federal-Mogul again saying, we would like to be able to re-quote this, and they gave us part numbers to quote, and we did so on the basis that we needed all of those part numbers so that we

had some chance of absorbing our fixed cost.

Again, we have furnaces that run around the clock, and for example, we've quoted I'm not sure how many part numbers. It might have been 100, it might have been 50, I don't remember, but we didn't want them to just be able to pick one part number and say, okay, we want 100 of these at the price you've quoted, and ignore all the other ones, because we based the entire quoting package on the package of business.

Even though we gave individual piece prices, we quoted them on getting the whole package of business, so that the pricing factors we put into the price of the product reflected some overhead absorption in our company. That's all I wanted to say to respond to some of the things that you heard today.

MR. GEOFFREY KORFF: I'll just finish by saying, there was also some discussion of risk, and risk avoidance as being a factor involved in deciding who suppliers are going to be, and it was discussed somewhat amorphously. There were no particulars stated as to what goes into calculating how risk is determined, but immediately after the discussion of risk was the discussion of the much more concrete issue of price, and everything that has been said today has been somewhat of a precursor to price, can

we or can we not compete on price, and we are at a point right now where we cannot compete on price, simply because our costs are above that of which our foreign competitors are, the reason being because we don't enjoy various subsidies that they do.

That being said, I hope the conference has been informative for everyone. I hope we walk away understanding what the issues are, and we look forward to clearing up any remaining questions in our post-conference brief. Thank you very much.

MR. ASCIENZO: Thank you very much.

MR. KANE: My concluding remarks are addressed to the major points of our prepared remarks. First, on the question that Mr. Bernstein asked for a moment, I don't think we have a choice with regard to cumulation. The subject merchandise is identical. The petition was filed on the same day, citing the two markets, so that we would have to accede to the cumulation considerations of the Commission.

The first of the points that I raised in my prepared remarks was the relative size of the domestic Ni-resist piston insert business to the industries in which the product is used. This is really a small part of what is a very large overall industry involving automotive and non-automotive uses of Ni-

resist pistons. The effects on the industry extend far beyond imports from Argentina or from Korea.

The Petitioner's price formula and commitment of capacity to production of the subject merchandise is questionable. We have bought product from the Petitioner over the years, and despite a general downturn in the market for Ni-resist piston inserts after 2006 or the reduction in imports for KUS in 2007 and 2008, QCC sales to KUS for those two years reflect a sustained increase of more than 130,000 units each year.

In other words, while KUS's imports have decreased, the volume of purchases from QCC have increased. I think we have established why Karl Schmidt has purchased from Clarendo Appel in Argentina; because of reliability, continuity, the ability to rely on a sustained source of supply, while still using QCC as a spot alternative. And again, we've covered some issues that we have with regard to statements made, and Mr. Deyman has asked for us to give some further information with regard to the allegations in footnote 9 on page 11, or footnote 11 on page 9. I'm not sure which way that worked. Thank you.

MR. LOWE: First, I wish to thank the

Commission and the staff for the opportunity to appear here today on behalf of Federal-Mogul, and to conclude, the Commission is faced here with a domestic industry, a single company that has largely brought on itself whatever financial difficulty it has experienced regarding the production and sale of Ni-resist piston inserts.

Market conditions have changed, and have been changing for a number of years. As we discussed earlier, automobile demand has plummeted recently, as has demand for trucks and other vehicles that use diesel engines. To the extent diesel engines are still being produced, engine producers desire fewer aluminum and more steel pistons, which do not use Ni-resist piston inserts.

For the reasons we discussed, steel engines are viewed as preferable for meeting the higher emissions standard. We will address this issue at some greater length in our brief, but for now, suffice it to say that aluminum piston production for diesel engines has declined, and with it, the demand for Ni-resist piston inserts. The Petitioner, Quaker City, is now the only company producing Ni-resist piston inserts in the United States.

The petition mentions another company that,

according to the Petitioner, left the piston insert market, Dana Corporation, in or around 1995, well before the period of investigation. Quaker City Casting saw this trend coming. That was discussed by the witness for the Petitioner earlier today. Rather than adapt, however, in 2004, Quaker threatened, by letter to Federal-Mogul and other piston producers, to cease production of Ni-resist piston inserts unless Federal-Mogul and those other producers sourced even more inserts from Quaker.

This strategy failed. Federal-Mogul, faced with this letter, and it's worth noting that Quaker also sent a letter to one of Federal-Mogul's major engine-producing customers along the same lines, basically saying that that customer could also take part in the decision of whether there would be a domestic Ni-resist insert maker, by pressuring its supplier, Federal-Mogul, the supplier of the pistons, to purchase additional Ni-resist inserts from Quaker.

We will produce that letter as well attached to our brief. But from Federal-Mogul's point of view, faced with this situation, it had to assess its own risk, its own stability of supply, so when counsel for the Petitioner argues now that this case is only about price, that simply isn't true. Federal-Mogul

previously sourced all of its Ni-resist inserts from the Petitioner, from Quaker City.

Once Quaker City began threatening to close down that source of supply unless Federal Mogul purchased even more inserts, indeed, more inserts than Federal-Mogul had any demand for -- it would have had to have purchased if it alone had been the one that was being required to do that -- Federal-Mogul, only then in 2006, after having looked out into the market, into the international market and otherwise, because recall, there were no other domestic producers, only then did Federal-Mogul begin purchasing inserts from a foreign supplier and importing them into the United States.

So, the issue wasn't price for Federal-Mogul so much as stability, and as one of the witnesses said today, avoiding risk. Even after Federal-Mogul made this switch, Quaker City has continued to abide by or to employ this pricing practice, and these quantity demands, which have been described in some level of detail, by requiring that Federal-Mogul, to the extent that it was going to purchase inserts from Quaker City on any kind of sustained basis, must do so across a broad spectrum of parts or insert types, as well as purchasing a number of inserts with each purchase.

That, again, is something that Federal-Mogul cannot view itself as able to do.

The unreasonableness of the surcharge is something that we will address in greater detail. The fact remains that Federal-Mogul sets a price that's designed to recoup all of its costs, which it alters on a monthly basis depending on those costs, which, in Federal-Mogul's point of view, is not a reasonable pricing practice, certainly not for it to switch over from purchasing from a stable supplier elsewhere.

Therefore, today, almost five years after these events took place, in 2004 and thereabouts, leading Federal-Mogul to switch its supplier, Quaker should not be permitted to claim that it is experiencing material injury or the threat of material injury by reason of subject imports, in light of Quaker's own practices and the other evidence in the record.

Subject imports of Ni-resist piston inserts are not causing Quaker any material injury, nor are they threatening any material injury. That concludes my remarks.

MR. ASCIENZO: Thank you very much. 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 dates to keep in mind. The deadline for submission of corrections to the transcript and for briefs in the investigations in Monday, February 23.

If briefs contain business proprietary information, a public version is due February 24. The Commission has tentatively scheduled its vote on the investigations for March 11 at 2:00 p.m. It will report its determinations to the Secretary of Commerce on March 12. Commissioners' opinions will be transmitted to Commerce on March 19. Thank you all very much for coming. This conference is adjourned.

(Whereupon, at 1:31 p.m., the preliminary conference in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Ni-Resist Piston Inserts from Argentina and Korea

INVESTIGATION NOS.: 701-TA-460-461 (Preliminary)

HEARING DATE: February 17, 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: February 17, 2009

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Rebecca McCrary
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