

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation Nos.:
) 701-TA-384
HOT-ROLLED FLAT-ROLLED) 731-TA-806-808
CARBON-QUALITY STEEL) (Second Review)
PRODUCTS FROM BRAZIL, JAPAN)
AND RUSSIA)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

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AND RUSSIA))

Wednesday,
April 6, 2011

Room 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

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

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THE HONORABLE JASON ALTMIRE, U.S.
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THE HONORABLE MO BROOKS, U.S. REPRESENTATIVE,
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THE HONORABLE TIM MURPHY, U.S. REPRESENTATIVE,
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Agreement:

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Agreement:

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P R O C E E D I N G S

2 (9:30 a.m.)

3 CHAIRMAN OKUN: Good morning. On behalf of
4 the United States International Trade Commission I
5 welcome you to this hearing on Investigation Nos. 701-
6 TA-384, and 731-TA-806 to 808 (Second Review)
7 involving certain hot-rolled flat-rolled carbon-
8 quality steel products from Brazil, Japan and Russia.

The purpose of these five-year review investigations is to determine whether the revocation of the countervailing duty order on hot-rolled steel from Brazil, and the antidumping duty orders on hot-rolled steel from Brazil and Japan and/or suspended investigation on hot-rolled steel from Russia would like lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

I understand the parties are aware of the

1 time allocations. Any questions regarding the time
2 allocations should be directed to the secretary.

3 Speakers are reminded not to refer in their
4 remarks or answers to questions to business
5 proprietary information. Please speak clearly into
6 the microphones and state your name for the record for
7 the benefit of the court reporter.

8 Finally, if you will be submitting documents
9 that contain information you wish classified as
10 business confidential, your request should comply with
11 Commission Rule 201.6.

12 Mr. Secretary, are there any preliminary
13 matters?

14 MR. BISHOP: No, Madam Chairman.

15 CHAIRMAN OKUN: Very well. Will you please
16 present our first congressional witness.

17 MR. BISHOP: The Honorable Peter J.
18 Visclosky, United States Representative, 1st District,
19 Indiana.

20 CHAIRMAN OKUN: Welcome back, Congressman.

21 MR. VISCLOSEKY: Thank you very much. It is
22 good to be back, Madam Chair, Commissioners. I was
23 here last week on an aluminum case, and the economy
24 has had good news since my last appearance. The Labor
25 Department announced in March that 216,000 jobs were

1 added to the economy, and that the unemployment rate
2 of this country decreased to 8.8 percent, still
3 miserably high.

4 But if you look past those figures you
5 realize that that monthly increase is still below the
6 monthly average between the years 1948 and the year
7 2000. Currently about 19 percent of our workforce is
8 employed in restaurants, bars and health care, the so-
9 called eat, drink and get sick jobs. They tend to be
10 lower paying. The additions in March were 29 percent
11 to these lower paying jobs, and the amount of people
12 who are working part time in this economy increased by
13 93,000.

14 We still have a desperately weak economy,
15 and between the years 1999 and 2010, because of unfair
16 trade practices in countries like Brazil, and Japan
17 and Russia, we lost 8,916 good paying manufacturing
18 jobs. You are considering a review on countervailing
19 duties for Brazil, antidumping for Brazil, Japan, and
20 Russia. The Commerce Department had the
21 determinations in August and in December that if the
22 orders in place are revoked we would find ourselves
23 back in deep serious trouble.

24 I am simply here today to again ask for your
25 serious consideration under this review, to keep the

1 orders in place so that those 21,682 people who are
2 still employed in steel in this basic manufacturing
3 sector are not added to these still very weak economic
4 statistics that I quoted.

5 With that, that would be the conclusion, and
6 again I appreciate the courtesy in being allowed to
7 testify again, and do trust in your fair judgment.

8 CHAIRMAN OKUN: Thank you. Are there
9 questions for the Congressman? Thank you.

10 MR. VISCLOSKY: Thank you very much.

11 CHAIRMAN OKUN: Mr. Secretary, are we ready
12 for our next congressional witness?

13 MR. BISHOP: Yes, Madam Chairman. The
14 Honorable Jason Altmire, United States Representative,
15 4th District, Pennsylvania.

16 CHAIRMAN OKUN: Good morning and welcome
17 back to the Commission.

18 Mr. Altmire: Thank you and good morning,
19 Madam Chair and members of the Commission. I thank
20 you for allowing me the opportunity to testify on the
21 need to continue antidumping and countervailing duty
22 orders on hot-rolled steel products from Brazil,
23 Japan, and Russia. I would also like to take this
24 moment to thank the members of the Commission for the
25 important work that you do in enforcing all of our

1 trade laws against unfairly traded imports. The
2 proper enforcement of these laws is critical to the
3 protection of American workers and companies from
4 injurious and illegal trade practices.

5 I am here today to discuss the five-year
6 review of the orders on dumped and subsidized hot-
7 rolled steel from Brazil, Japan, and Russia. The
8 Department of Commerce has already determined that the
9 termination of these orders would likely lead to a
10 recurrence of dumping and illegally subsidized steel.
11 It would be devastating to the American economy and to
12 the tens of thousands of Americans employed in steel
13 mills across the country to allow the industry to
14 again be crushed by the surge of unfairly traded steel
15 from those three countries.

16 In 1998, the American economy was booming
17 and unemployment was at an historical low of 4.5
18 percent. Our GDP then was growing at an annual rate
19 of 4.4 percent and the United States was consuming
20 over 75 million short tons of hot-rolled steel.
21 During this period of strong economic activity our
22 nation's steel mills were operating at 87.5 percent of
23 their total capacity. That same year a devastating
24 400 percent surge of unfairly traded imports of hot-
25 rolled steel from Brazil, Japan and Russia almost

1 wiped out the domestic industry, prompting the ITC to
2 issue the orders that are the subject of these
3 hearings today.

4 Fortunately, the imposition of the
5 antidumping and countervailing duty orders, together
6 with the hard work of American hot-roll producers,
7 allow the domestic industry to recover. Since 1998,
8 productivity in the domestic hot-rolled steel industry
9 has improved, hourly wages have risen, and hot-rolled
10 producers have continued to employ tens of thousands
11 of workers in their American mills.

12 However, 2011 is not 1998. The domestic
13 industry is in a vastly more vulnerable position now
14 than it was in 1998. The United States is still
15 recovering from what some have called the worst
16 economic crisis since the Great Depression with
17 unemployment only recently dropping below 9 percent.

18 Hot-rolled steel is used primarily in the
19 automobile industry and the construction trade, two
20 key sectors that have been among the hardest hit by
21 the economic downturn. Therefore, it's not surprise
22 that current demand for hot-rolled steel is much lower
23 than in pre-recession levels.

24 Last year the United States consumed only 55
25 million short tons of hot-rolled steel, and as a

1 result the domestic industry operated at less than 69
2 percent of total capacity. This level of production
3 has not allowed the domestic producers to recover the
4 heavy losses they sustained in 2009.

5 I am proud to represent the 4th District of
6 Pennsylvania which, as you know, is just north of
7 Pittsburgh. The district is populated by what was
8 once a booming steel -- group of steel towns along the
9 Ohio River. These towns where the American steel
10 industry used to thrive know all too well the negative
11 impacts of unfairly traded foreign steel. One example
12 from my district is the Jones & Locklin Steel Company
13 in Aliquippa. At the height of production the mill
14 supported thousands of jobs in a community of over
15 20,000 people. As foreign subsidized steel
16 importation increased the mill was forced to close,
17 and Aliquippa's population has since been cut in half.

18 Though it's not what it once was, steel
19 manufacturing continues to be a significant employer
20 in the region with the U.S. Steel Mon Valley Works
21 employing a number of my constituents from the 4th
22 District. These well-paying jobs provide a good
23 standard of living for local families, but they could
24 disappear if these orders are not maintained. The
25 sunset reviews are taking place at a time when the

1 domestic producers are extremely vulnerable to injury
2 from unfair trade. There is simply no question that
3 the occurrence of dumping would lead to further damage
4 to the industry and to our economy which is a risk we
5 simply cannot take.

6 Therefore, I respectfully urge the
7 Commission to keep the orders in place and give the
8 domestic steel industry a chance to recover without
9 fear of injury from unfair trade. American steel
10 producers have proven that they can be world class
11 competitors when the terms of competition are fair.

12 I thank you, all members of the Commission,
13 for the opportunity to testify and would be happy to
14 answer any questions.

15 CHAIRMAN OKUN: Thank you. Are there
16 questions? Thank you very much for your testimony
17 today.

18 MR. BISHOP: The Honorable Mo Brooks, United
19 States Representative, 5th District, Alabama.

20 CHAIRMAN OKUN: Good morning, Congressman.
21 Welcome to the ITC.

22 MR. BROOKS: Good morning. Thank you for
23 the opportunity to be here.

24 Chairman Okun and members of the Commission,
25 thank you for the opportunity to permit me to share my

1 views on whether this Commission should maintain the
2 unfair trading practices on hot-rolled steel from
3 Brazil, Japan, and Russia.

4 The steel industry employs nearly 1,000
5 people in my northern Alabama district, providing good
6 wages and steady jobs to the communities they call
7 home. Nucor alone employs more than 700 people at the
8 sheet mill in Decatur with an annual payroll of \$54
9 million. The positive impact of this kind of
10 investment is felt all throughout the local economy
11 through increased spending, a more stable tax base,
12 and an influx of supporting industries.

13 The hardworking people back home in Alabama
14 have proven that when given a fair opportunity and a
15 level playing field they can outcompete, outproduce
16 and outinvent all steel producers around the globe.
17 For example, during our recent recession Nucor's
18 Decatur millworkers displayed their true spirit of
19 innovation. While order books were very thin they
20 collaborated with a customer to develop a new product,
21 armor steel plates. Nucor's Decatur team now produces
22 the thinnest gauge armor steel plate available and it
23 is used in applications to protect the American
24 warfighter.

25 I urge the Commission to take note that the

1 operating performance of the United States steel
2 industry remains extremely weak. Like many other
3 businesses, the hot-rolled steel industry in our
4 country is just beginning to recover from the recent
5 recession, finally breaking even after posting
6 operating losses of more than \$2 billion in 2009.

7 In the last five years the domestic industry
8 suffered staggering losses in hours, wages and jobs.
9 Three hot-rolled steel mills were forced to shut down.
10 More than 6,000 production-related jobs were lost.
11 Those workers who remained worked 13 million fewer
12 hours and saw their wages drop by 18 percent. The
13 industry is at greater risk today than it was five or
14 10 years ago. As reflected in the Commission's staff
15 report for this proceeding, demand for hot-rolled
16 steel today remains well below three recession levels
17 with about 20 percent less product produced and
18 shipped in 2010 than at the time of the last review.
19 The domestic industry has been running at less than 7
20 percent of capacity, down from 80 to 90 percent in
21 2004.

22 In addition, new capacity is coming online
23 domestically which will further increase the risk of
24 oversupply. All these factors indicate a U.S.
25 industry that is vulnerable to injury from imports.

1 Meanwhile, Brazil, Russia, and Japan have
2 remained focused on driving exports. They increased
3 their hot-rolled steel exports even during the
4 recession and each of these countries continues to
5 bring new capacity online as well. As a result these
6 countries have much more excess capacity than they had
7 five years ago. If the remedy is removed, this excess
8 steel could quickly land on our shores at dumped and
9 subsidized prices and further injury our domestic
10 industry and workers that are just beginning to
11 recover from the recession.

12 Please bear in mind with me as I emphasize
13 the gravity of your decision. During the first six
14 years of the last decade America's federal government
15 suffered budget deficits averaging \$300 billion per
16 year. During fiscal years 2008 through 2010, the
17 federal budget deficit averaged \$1.1 trillion per
18 year. America's budget deficit for this fiscal year
19 is projected at roughly \$1.5 trillion.

20 Admiral Mullen, Chairman of the Joint
21 Chiefs of Staff, testified last month before the House
22 Armed Services Committee, of which I am a member, that
23 America's greatest national security threat is not
24 Al-Qaeda, the Taliban, North Korea, China or Iran;
25 rather Admiral Mullen testified that America's

1 greatest national security threat is our unsustainable
2 budget deficit and resulting national debt.

3 America's deficits are a function of two
4 things: spending and revenue. A major deficit driver
5 is lost jobs in manufacturing and heavy industry. If
6 Brazil, Russia, and Japan are permitted to dump steel
7 and put American steelmakers out of business, then the
8 depressing effect of America's economy and tax
9 revenues means America is one step closer to a federal
10 government insolvency and bankruptcy.

11 As this Commission conducts its
12 investigation, I ask that it be mindful of the impact
13 its decision will have on both our steel industry and
14 on America's economy and solvency.

15 All too often foreign competitors try to
16 ensure that their industries have an unfair
17 competitive advantage. In such cases it is
18 appropriate and necessary for the United States to
19 step into enforce our trade laws. Appropriate use of
20 trade remedy strengthens not only the American economy
21 but the world marketplace. As President Ronald Reagan
22 said 25 years ago, "When a trading system follows the
23 rules of free trade, when there is equal opportunity
24 to compete, American business is as innovative,
25 efficient, and competitive as any in the world. I also

1 know that the American worker is as good and
2 productive as any in the world, and that's why to make
3 the international trading system work all must abide
4 by the rules."

5 Quite frankly, I am gravely concerned that
6 removing the current trade remedy will likely result
7 in a new arrival of unfairly traded products from
8 these nations, destabilize our domestic producers and
9 the local economies of communities across Alabama and
10 the United States, further deepen our national deficit
11 prices, and increase America's risk of a federal
12 government insolvency and bankruptcy.

13 On behalf of the citizens I represent and as
14 a member of Congress who is very concerned about
15 America's future, I urge the Commission to maintain
16 this remedy so that the American steel industry and
17 the families who depend on it may continue to recover.
18 By enforcing the rules of free trade we can continue
19 to make the global economy a stronger and healthier
20 marketplace.

21 Thank you for your time today and for your
22 hard work for our country.

23 CHAIRMAN OKUN: Thank you for your
24 testimony. Any questions for the Congressman? Thank
25 you.

1 MR. BROOKS: Thank you.

2 MR. BISHOP: Madam Chairman, that concludes
3 our congressional appearances at this time.

4 CHAIRMAN OKUN: Very well, then let's turn
5 to our opening statements.

6 MR. BISHOP: Opening remarks on behalf of
7 those in support of continuation of the orders will be
8 by Alan H. Price, Wiley Rein.

9 MR. PRICE: Good morning, Chairman Okun,
10 Vice Chairman Williamson and members of the
11 commission.

12 In the five years since the Commission last
13 reviewed the order on hot-rolled steel from Brazil,
14 Japan, and Russia the U.S. industry has become
15 increasingly vulnerable to unfairly traded imports as
16 a result of the global recession. Shipments are down
17 by 22 percent and profits are down by 91 percent from
18 2004 levels. Domestic capacity utilization in 2010
19 was only 68 percent. The industry's shipments, profit
20 and capacity utilization were actually better during
21 the original investigation than they were in 2010.
22 Since the original investigation, more than 9,000
23 workers in the domestic industry have lost their jobs.

24 The recession hit U.S. producers hard
25 because it hit their customers hard. Automotive,

1 construction and energy demand often tracked it.
2 Prior to the recession about 17 million cars were
3 built here in the United States. This year sales are
4 projected to recover only 13 million. Construction
5 demand remains at rock bottom, and energy demand is
6 projected to increase by less than 1 percent.

7 U.S. hot-rolled prices has increased in
8 recent months, but so have raw material costs. Hot-
9 rolled steel accounts for a majority of domestic steel
10 production. This case is critically important, and
11 the subject countries are among the largest producers
12 in the world. Today, CEOs and other high-level
13 industry executives from the U.S. industry are here to
14 explain why these orders must remain in place if the
15 industry is to continue its recovery.

16 On the other side you will hear many of the
17 same arguments that you correctly discounted five
18 years ago. For example, in the first sunset review
19 lawyers for the Russian steel industry argued that
20 their clients could not and would not ship volumes to
21 the United States. But you got the real story from
22 the Russian industry witness who admitted in testimony
23 that, and this is a quote here, "All of the volumes
24 that were shipped to the United States in 2004 were
25 redirected from other markets because the price

1 situation in the U.S. market was more favorable. It's
2 a normal pattern for us to shift to the market which
3 is the most profitable."

4 Similarly CSN's most recent SEC filing also
5 concedes that the company shifts volumes between
6 markets based upon price. These admissions tell you a
7 lot.

8 Subject producers are that the U.S. is not
9 an attractive market, but according to recently
10 published third-party data prices here are much higher
11 than in virtually every other available export market,
12 and that is one reason why the subject imports will
13 return.

14 Just like last time the Respondents argue
15 that the domestic industry is now more consolidated
16 and no longer harmed by unfairly traded imports. As
17 our CEOs will tell you, nothing could be further from
18 the truth.

19 Next, Respondents argue that there
20 increasing capacity will remain in their home markets,
21 yet the subject countries, which are among the world's
22 largest hot-rolled producers, continue to export large
23 quantities of hot-rolled steel, to have excess
24 capacity and to bring on new capacity that goes far
25 beyond expected changes in home market demand.

1 Hot-rolled steel producers in Brazil, Japan,
2 and Russia continue to be export oriented and they
3 have increased their excess capacity. They have even
4 greater ability to export hot-rolled steel to the
5 United States than they did in 2005. Subject
6 producers have demonstrated their ability to rapidly
7 shift tonnages between markets and to grab market
8 share. Remarkably, the three subject countries
9 sharply increased their global hot-rolled exports
10 during the recession at a time when global demand was
11 plummeted. But now they are facing new challenges in
12 major export markets, and the Chinese economy with its
13 huge overcapacity in steel is starting to slow down.

14 Producers in the subject countries must and
15 will find other markets for their excess capacity,
16 particularly the United States, an open and attractive
17 market if these orders are terminated. If subject
18 dumped and subsidized imports are allowed to return to
19 the U.S. market, they will destroy the slow recovery
20 that the U.S. industry is making. At the very least
21 they will significantly delay recovery. Either event
22 would be a continuation or recurrence of material
23 injury to a battered industry by reason of the subject
24 imports. Thank you.

25 CHAIRMAN OKUN: Thank you. Mr. Secretary,

1 I understand we have another congressional witness, so
2 Mr. Lewis, if you could hold up for one second, we
3 will take our witness.

4 MR. BISHOP: That is correct, Madam
5 Chairman. The Honorable Mark Pryor, United States
6 Senator, Arkansas.

7 CHAIRMAN OKUN: Good morning, and welcome.

8 MR. PRYOR: Thank you and thank you for
9 having me. I'm going to be very brief; just two or
10 three minutes here, but I want to thank you and all
11 the members here on the Commission today, and just
12 thank you for the opportunity to speak before you
13 about the importance of maintaining the trade remedy
14 on hot-rolled steel imports from Brazil, Japan, and
15 Russia.

16 This trade remedy has played a critical role
17 in ensuring a fair competitive market for U.S.
18 producers of hot-rolled steel, and a proud livelihood
19 for the industry's workers. Manufacturing is central
20 to Arkansas's economy. The steel industry plays a
21 significant role in Arkansas's manufacturing sector,
22 employing thousands in our state. Mississippi County,
23 Arkansas, is home to Nucor Steel, Arkansas, one of the
24 most productive hot-rolled steel mills in the world.
25 The hundreds of Arkansans who work there produce high-

1 quality steel for customers in the automotive, energy,
2 and construction industries.

3 The recent economic crisis was a
4 particularly brutal ending to a difficult decade for
5 our state's manufacturers. Over the past decade many
6 of the 76,000 Arkansans who were employed in the
7 manufacturing sector have seen their jobs disappear.
8 Many of these jobs were lost to countries that
9 illegally subsidized production of goods or sell them
10 at dumped prices in the United States. These trade
11 practices have resulted in manufacturers shutting down
12 in the United States because they are unable to
13 compete against foreign governments that violate
14 international rules and provide significant support to
15 their industries.

16 This was the situation in the late 1990s
17 when the trade remedy on imports from Russia, Brazil,
18 and Japan was first imposed. The U.S. economy was
19 strong, the housing and other areas in the
20 construction market were booming. As a result, demand
21 for steel was strong, too. In this environment U.S.
22 steel companies should have had solid financial
23 performance but that was not the case. Unfairly
24 traded imports of hot-rolled steel far outpaced
25 demand, resulting in severe drop in prices. Instead

1 of thriving, steel companies struggled to survive and
2 several companies were forced into bankruptcy.

3 The trade orders against these three
4 countries put a stop to their unfair trade practices.
5 With the play filed level the financial health of our
6 domestic steel industry improved. That is why it is
7 so important to leave this remedy in place.

8 The Department of Commerce has already
9 determined that if this remedy is revoked hot-rolled
10 steel imports from these countries would return to the
11 U.S. market at dumped and subsidized price levels. It
12 is clear that those foreign producers remain export
13 oriented. As the Commission staff report shows,
14 Russia producers exported approximately 30 percent of
15 2010 production. Moreover, all three countries have
16 excess capacity, and Brazil and Russia have more new
17 capacity coming online which will only further fuel
18 their need to export.

19 In fact, I understand the total excess hot-
20 rolled steel capacity in Brazil, Japan, and Russia is
21 several million tons higher today than it was during
22 the Commission's previous sunset review.

23 I am very concerned about the impact of
24 these dumped and subsidized imports that it could have
25 on the domestic industry that is struggling to recover

1 from the worst economic crisis since the Great
2 Depression. The U.S. industry had operating losses of
3 \$2.3 billion in 2009 and barely broke even in 2010,
4 with operating income at \$635 million. This compares
5 to operating income of \$7.5 billion in 2004, during
6 the Commission's last review. Given the weaker
7 economic environment we find ourselves in today, an
8 influx of unfairly traded imports would be
9 devastating.

10 This trade remedy has been instrumental in
11 creating a fair competitive environment for the hot-
12 rolled sector of the U.S. steel market. Therefore, I
13 would respectfully ask the Commission to keep the
14 remedy in place for the good of our steel industry and
15 its workers. Thank you very much.

16 CHAIRMAN OKUN: Thank you very much for your
17 testimony. Anyone have questions? Commissioner
18 Pearson.

19 COMMISSIONER PEARSON: Senator, when you
20 last were in front of us perhaps two or three years
21 ago I inquired into the well being of the former
22 Senator Pryor, so allow me to do that once again. Is
23 your father well?

24 MR. PRYOR: He is doing extremely well.
25 Thank you very much. He is keeping busy in his

1 retirement and he's doing things that he loves to do,
2 sir. Thank you.

3 COMMISSIONER PEARSON: Well, let him know
4 that he is remembered fondly by the staff and members
5 of the Senate Agricultural Committee to whom he was
6 very gracious.

7 MR. PRYOR: I sure will. I will give him
8 your regards.

9 COMMISSIONER PEARSON: Thank you.

10 MR. PRYOR: Thank you.

11 CHAIRMAN OKUN: Thank you very much, and now
12 we will send the Senator back to work, and hope that
13 they can reach a deal.

14 (Laughter.)

15 MR. BISHOP: Madam Chairman, that concludes
16 our congressional testimony at this time.

17 CHAIRMAN OKUN: Thank you. Let's return to
18 our opening statements.

19 MR. BISHOP: Opening remarks on behalf of
20 those in opposition to the continuation of orders will
21 be by Craig A. Lewis, Hogan Lovells.

22 CHAIRMAN OKUN: Good morning and welcome.

23 MR. LEWIS: Good morning. Good morning,
24 Madam Chairman, Commissioners and the Commission
25 staff.

1 For the record, my name is Craig Lewis of
2 the law firm of Hogan Lovells, and I am appearing
3 before you today on behalf of the Brazilian producer
4 CSN. I thank you for this opportunity to present
5 their arguments in opposition to the continuation of
6 these orders.

7 The Commission made its original
8 determination in this case 12 years ago on the basis
9 of data that stretched back 15 years. Twelve to 15
10 years is a lifetime in this industry, and the steel
11 industry that exists today is simply unrecognizable
12 compared to what existed and was presented to the
13 Commission for consideration in 1999.

14 This is true with respect to the structure
15 and the competitive state of the steel industry in the
16 United States. It is true with respect to conditions
17 within the global steel market. And it is also true
18 with respect to the competitive circumstances of the
19 steel industry in Brazil, Japan, and Russia.

20 These changes call for the Commission to
21 approach this case with fresh eyes and an open mind.
22 Yet the arguments you have just heard from Petitioners
23 and will hear much more later this morning sound
24 familiar and old. They sound familiar and old because
25 they are the same shop-worn arguments the domestic

1 industry made during the original investigation,
2 during the first sunset review, and later in the
3 corrosion-resistant sunset reviews. With the passage
4 of time Petitioners' arguments have remained
5 remarkably the same, only backs have changed.

6 The arguments Petitioners are presenting to
7 you today may have seemed plausible 15 years ago.
8 However, they cannot be squared with the record
9 currently before the Commission. Let me briefly
10 highlight the facts.

11 First, the U.S. industry has fundamentally
12 changed. As we will develop in our testimony later
13 today, the U.S. industry has undergone an
14 unprecedented process of consolidation and
15 bankruptcies since 1999, shedding itself of crippling
16 legacy costs and inefficient capacity. Home grown and
17 foreign investment have updated and transformed the
18 manufacturing infrastructures. The industry that has
19 emerged from this process is a world class low-cost
20 competitor with significant market power within the
21 United States.

22 This renewal of the U.S. hot-rolled steel
23 industry today is perhaps new or better evidence by
24 the industry's extraordinary ability to withstand and
25 maintain prices during the severe financial pressures

1 created by the Great Recession commenced in the third
2 quarter of 2008. Having successfully weathered that
3 storm, U.S. prices and profits are now in the rise
4 again. This is, to put it simply, not a vulnerable
5 industry.

6 Second, the global steel market has
7 fundamentally changed. The original investigation
8 period in 1998 was a unique moment in history,
9 characterized by the Asian financial crisis and
10 serious economic turmoil in Russia. At the same time
11 demand was rising in the United States, making the
12 United States a temporary haven for imported steel.
13 This created a perfect storm leading from unusual and
14 one-time surge in imports from Japan and Russia.

15 However, as our next set of witnesses will
16 explain, these global conditions no longer exist, and
17 have no likelihood of recurring. If anything,
18 conditions in the global steel market have reversed.
19 As global demand for steel outside the United States
20 has substantially expanded, the United States no
21 longer is a haven for imports.

22 Third, and lastly, the industries and
23 markets in Brazil, Japan, and Russia have been
24 fundamentally transformed as well. As our witnesses
25 from Brazil will discuss, Brazil is a story of all-

1 consuming domestic demand. During the review period
2 the Brazilian market experienced huge increases in
3 demand for steel stimulated by Brazil's enormous and
4 growing expenditures for infrastructure and increased
5 domestic consumption of consumer good.

6 As a result, during most of the period of
7 review the Brazilian producers operated at or nearly
8 full capacity and shipped virtually all of their
9 production to the home market. In addition to lacking
10 the capacity for significantly increased exports,
11 typically higher prices in Brazil and unfavorable
12 exchange rates have removed any incentive than
13 otherwise may have existed to ship subject products to
14 the United States.

15 It simply makes no economic sense for Brazil
16 to do so and there is no indication that these
17 conditions will change in the foreseeable future as
18 the Brazilian economy continues to grow.

19 The Russian steel industry and the Russian
20 market has also dramatically changed. The turmoil
21 that existed in the Russian economy in 1998 has
22 subsided. Russian demand for hot-rolled steel is
23 strong and prices have been rising. Russian producers
24 follow a more orderly marketing strategy than in the
25 past based upon production orders, and not inventory.

1 Russian producers have substantial hot-rolled
2 manufacturing operations in the United States, and are
3 not interested or willing to damage those investments
4 by increasing their exports of hot-rolled steel to the
5 United States.

6 These conclusions are substantiated by the
7 fact that Russian import volumes have generally
8 remained far below the quotas established under the
9 suspension agreement even though the reference prices
10 have remained below U.S. market prices.

11 CHAIRMAN OKUN: Mr. Lewis, your red light
12 has come on. Do you have a concluding statement?

13 MR. LEWIS: Sure. Finally, our witnesses
14 from Japan will explain how the Japanese industry has
15 cultivated a strong position in rapidly growing Asian
16 markets with investments tied to downstream projects
17 and an increasing focus on higher and value-added
18 products.

19 It is also noteworthy that the U.S. industry
20 made the same dire predictions of increased exports
21 from Japan four years ago when the corrosion-resistant
22 order were up for sunset, yet falling revocation of
23 these orders Japanese exports remained very low.

24 We again urge you to base your decision on
25 the facts as they stand now and not as they existed in

1 1998.

2 CHAIRMAN OKUN: Thank you.

3 MR. LEWIS: Thank you very much.

4 MS. BISHOP: Would the first panel, those in
5 support of the continuation of the orders please come
6 forward and be seated. Madam Chairman, all witnesses
7 have been sworn.

8 (Witnesses sworn.)

9 CHAIRMAN OKUN: Looks like your panel is
10 ready to go.

11 MR. LIGHTHIZER: I'm Bob Lighthizer,
12 representing U.S. Steel.

13 This morning we would like to begin the
14 domestic producers' presentation with slides
15 highlighting the critical issues in this case. As you
16 consider these slides as well as the rest of the
17 record, I urge you to focus on three key point.

18 First, both the U.S. and world economies are
19 struggling to recover from a terrible economic crisis.
20 Because demand for hot-rolled steel is closely related
21 to demand conditions within the broader economy, the
22 effects of this crisis on domestic hot-rolled
23 producers have been profound.

24 Your record shows that the U.S. market is
25 significantly smaller now than it was during the

1 original investigation or during the last five-year
2 review. Your record also shows that last year almost
3 one-third of all hot-rolled capacity in the United
4 States was not used, and over the last two years
5 domestic producers have lost close to \$2 billion.
6 None of these facts are in dispute and together they
7 constitute overwhelming evidence of vulnerability.

8 Second, there can be no question that all
9 three countries are major exporters of hot-rolled
10 steel.

11 Third, if the orders are revoked, these
12 imports will return to this market in volume
13 sufficient to cause material injury. Once again, the
14 key facts are not in dispute. Your records show that
15 these producers have unused capacity and ship massive
16 volumes of exports while independent sources confirm
17 that the United States currently has the highest
18 prices of any significant export market. You should
19 not hesitate to keep this badly needed relief in
20 place.

21 Let's start with vulnerability. The facts
22 are undisputed and overwhelming. In 1999, domestic
23 producers -- since 1999, domestic producers had been
24 forced to eliminate 30 percent of their workforce. A
25 total of 8,916 men and women have lost their jobs. In

1 1998 and 2004 were the last full years during the
2 previous times you considered these orders. In each
3 of those years domestic producers used over 86 percent
4 of their capacity. Last year, by contrast, they used
5 only 68.9 percent. Remarkably the other side actually
6 claims this is a sign of strength, but our witnesses
7 will confirm what you already know, that low capacity
8 utilization makes steel production less efficient and
9 more expensive.

10 The other side also claims that higher
11 prices in recent years are a sign the domestic
12 producers are healthy. But as you know you have to
13 look at prices and cost to measure an industry's
14 performance. Here the record plainly shows that costs
15 have soared, and the domestic producers have operating
16 losses of \$1.8 billion over the last two years. Once
17 again compelling evidence that we are in a weakened
18 condition.

19 In fact, even if you look at the domestic
20 producers' performance since 1999, the whole period of
21 relief, we have an operating margin of only 5.9
22 percent. To put that in perspective, consider that in
23 1999 you could have bought a 10-year U.S. Government
24 Bond with an interest rate of 5.6 per cent. Such
25 meager returns plainly indicate the weakness of the

1 domestic industry and market conditions are bleak.

2 The U.S. market is much smaller than it was
3 in 1998 or 2004. Consumption is expected to remain
4 weak. CRU does not expect it to reach '06 levels
5 until at least 2013. As the next few slides show, the
6 pessimism results from serious concerns over the
7 health of the U.S. economy.

8 As we all know, the U.S. housing market as
9 simply collapsed, a development that has hurt the
10 overall economy and driven down demand for hot-rolled
11 steel. A lot of hot-rolled steel finds its way into
12 appliances, but their sales have fallen by almost 20
13 percent. Auto demand plays a major role in the market
14 for hot-rolled steel and downstream flat-rolled
15 products. Once again auto demand has suffered because
16 of the recession, and is likely to remain weak for
17 years.

18 The next two slides summarize key evidence
19 regarding vulnerability. On this slide you can see
20 that on indicator after indicator the conditions of
21 the domestic industry is much worse than the last two
22 times you considered these orders.

23 Note that our operating margins last year
24 were even lower than it was during the last year of
25 the original investigation as you see here, the

1 problems facing the U.S. economy.

2 When you hear the other side talking about
3 how great the economy is, I urge you to remember these
4 facts. The evidence overwhelmingly shows that both
5 the domestic industry and the U.S. economy are in a
6 very fragile state. Under these circumstances you
7 should find vulnerability.

8 Let's talk briefly about accumulation. The
9 last time the Commission considered these orders it
10 concluded that subject imports from all three
11 countries would compete under the same basic
12 conditions of competition. In fact, all six
13 Commissioners voted to cumulate subject imports, and
14 there have been no changes that would justify a
15 different result. Indeed, the important conditions of
16 competition are the same for all three.

17 Next we turn to the likely volume of
18 imports. The first and most important fact here is
19 that you are dealing with three enormous industries.
20 That's clear from the staff report. But the neutral
21 CRU data shows that they have almost 17 million tons
22 of capacity more than they reported to you. Even if
23 only a fraction of that capacity was shipped here, the
24 results would be devastating.

25 Even if we focus only on staff report data,

1 it is clear that these producers have major incentives
2 to return to this market. In the first place they
3 reported almost 10 million tons of unused capacity
4 last year, a figure much greater than the original
5 volume of imports that did so much damage.

6 Furthermore, despite all their talk about their home
7 markets, these producers are major exporters. World
8 Trade Atlas data indicate that they have exported over
9 17 million tons of hot-rolled steel last year, enough
10 to supply over 80 percent of all hot-rolled consumed
11 in our merchant market.

12 If we combine subject producers' unused
13 capacity and their 2010 exports, you see that they
14 have over 17 million tons of capacity that could be
15 used to make hot-rolled steel for this market without
16 affecting any of the sales they have made in their
17 home markets. This is a very significant point
18 because it shows that these producers can hurt us
19 without pulling one ton from their home markets.

20 The Russians claim that the failure of their
21 producers to use their entire quota in recent years
22 shows that they will not return to this market. A
23 closer look reveals a very different story. In the
24 last several years the medium reference price with
25 freight costs added limited their shipments here in

1 '05, '07, and '09. Now that was not the case in '06
2 and '04, and both of those years they had massive
3 shipments here. Indeed, the only year they did not
4 have massive shipments were '08 and 2010, and in those
5 years prices in their other export markets when
6 adjusted for freight were actually higher than our
7 prices, and even in each of those years they did ship
8 some quantities here.

9 Now U.S. pricing is relatively attractive
10 again. In fact, you can see here that U.S. price in
11 the first quarter of 2011 was over \$100 per metric ton
12 above the CIS export price plus the reported freight
13 costs. Under these circumstances you would expect
14 imports to return and in fact our witnesses will
15 testify that they are now seeing a large number of
16 very aggressive offers from Russian mills.

17 Indeed, our prices are much higher than
18 prices in other export markets, a fact that will
19 certainly draw imports to the United States.

20 Subject producers are that strong
21 consumption in Asia make the U.S. market less
22 attractive, but they fail to say that Asian production
23 in actually outpacing consumption, so the notion that
24 subject producers will be able to increase exports to
25 Asia is simply wrong. In fact, they are more likely

1 to be squeezed out of that market.

2 The likely price effects of subject imports
3 will be significant. Hot-rolled steel is primarily a
4 commodity product sold on the basis of price. If we
5 get hit by another wave of unfair trade, domestic
6 producers must either cut prices or lose sales, and
7 the likely impact of these imports will be
8 devastating. The domestic industry is in the midst of
9 a crisis. U.S. mills are certainly in no position to
10 deal with more unfair trade.

11 Commissioners, I submit that there are three
12 major issues in this case.

13 First, are we vulnerable? We are losing
14 jobs and money, production is down, and we are
15 operating in a global economic crisis. I think the
16 answer to this question is yes.

17 Second, will these three massive industries
18 export hot-rolled steel? The neutral CRU says that
19 they will and in huge amounts.

20 Third, will the ship enough steel here to
21 materially injure us? Well, we are one of the world's
22 biggest markets. We have the highest prices of any
23 major export market. They have flooded this market
24 before, and some of them are making low-priced offers
25 as we sit here today. Many buyers and importers told

1 you in their questionnaire responses that they will
2 come.

3 Would you bet that these massive foreign
4 industries will not do what they can to maximize their
5 profits? The hot-rolled steel industry is in many
6 ways at the center of American manufacturing. In the
7 face of all this do you take a chance with these
8 21,000 jobs at this time? I hope not. Thank you.

9 Mr. Surma.

10 MR. SURMA: Good morning. I'm John Surma,
11 Chairman and Chief Executive Officer of United States
12 Steel Corporation. Thank you for the opportunity to
13 testify here today.

14 We make many different products at U.S.
15 Steel but most of our production consists of flat-
16 rolled steel, and the heart of flat-rolled production
17 is hot-rolled steel. Other key flat-rolled products,
18 cold-rolled steel, corrosion-resistant steel, tin mill
19 sheets, are only as good as our hot-rolled steel from
20 which they are made.

21 Furthermore, the commercial market for hot-
22 rolled steel is larger than the commercial market for
23 any of those other flat products. So it is no
24 exaggeration but the simple truth to say that a market
25 characterized by fair trade in hot-rolled steel is

1 vital to the long-term health of our company and our
2 employees.

3 The orders at issue today are extremely
4 significant. As you listen to our friends this
5 afternoon talk about why this industry no longer needs
6 relief, why it should now be in a position to compete
7 against unfair trade, I would respectfully ask you to
8 take a step back, think about what this industry has
9 been through, and where it is now. If you can take a
10 fair view of those facts, we are confident that you
11 will understand why trade relief remains so critical.

12 The orders at issues here stem from one of
13 the most massive and devastating import surges the
14 American steel industry, any industry has ever seen.
15 In two years, and in a strong market, Russian,
16 Japanese, and Brazilian imports increased from 1.3
17 million net tons in 1996 to nearly 7 million tons in
18 1998. The result was the first shot of an import
19 crisis that literally threatened the existence of a
20 large portion of the American steel industry.

21 No sooner had the orders gone into effect
22 then we experienced another equally devastating surge
23 in imports from China, India, and a host of other
24 countries leading to a second round of hot-rolled
25 cases. In the context of weakening demand, the steel

1 industry was brought to its knees with more than half
2 its capacity ultimately driven into bankruptcy.

3 By the time this Commission first reviewed
4 the orders at issue here in 2005, the industry had
5 seen precisely one year of the relief period, 2004,
6 when it did not lose significant amounts of money.
7 Thanks to the Commission's decision to extend the
8 orders our producers and workers were finally given a
9 chance to get back on our feet and registered solid
10 performance in the good economic times that followed
11 until the financial crisis in 2008, that is.

12 Then faced with an unparalleled global
13 economic crisis the steel industry once again saw
14 themselves in an awful position, registering losses in
15 2009 that were exceeded only in the near Armageddon
16 year of 2001. We are still trying to find our way
17 back after this latest series of blows. But with
18 respect, anyone telling you that this industry is or
19 has been over the period of relief in good shape or
20 sufficiently profitable simply does not know what they
21 are talking about.

22 I understand that according to your record
23 the overall hot-rolled industry earned an operating
24 income of about 5.9 percent over the period of relief.
25 to say this is inadequate for an industry to invest,

1 to compete, to comply with all the environmental and
2 regulatory requirements we must, and to still provide
3 an acceptable return to our shareholders is a gross
4 understatement.

5 Make no mistake. With all the incredibly
6 hard work this industry and our workers have
7 undertaken, with all the steps we have taken to
8 improve our efficiency and productivity, we're still a
9 long way, a long way from being out of the woods.

10 I'm sure you will hear from our friends on
11 the other side that things are turning around. Please
12 don't be misled by simplistic comparisons between
13 2009 and 2010. Even with modest economic improvement
14 in 2010, the hot-rolled market was almost 20 million
15 tons smaller in 2010 than it was in 1998, the year
16 before relief was granted in this case. Just to be
17 clear, that represents a reduction of over 25 percent
18 in the size of the hot-rolled market. The market is
19 down over 16 million tons just since 2006.

20 In February, housing starts posted their
21 biggest decline in 27 years. U.S. vehicle production
22 in 2010 was down over 30 percent since 2006 levels.
23 Your data indicates that there are almost 9,000 fewer
24 production-related workers in this industry than in
25 1999. The hot-rolled industry's capacity utilization,

1 again according to your own compilation, was below 50
2 percent in 2009 and was still below 70 percent in
3 2010. These are dramatic figures and reflective of a
4 highly vulnerable industry facing difficult and still
5 very uncertain times.

6 Thus market conditions today are
7 significantly worse than when I appeared before you in
8 2005. We are managing our way through the situation
9 and I believe that both our industry and the U.S.
10 economy will recover eventually. But the damage
11 inflicted on us during the recent economic crisis will
12 haunt this industry and our company and our employees
13 for many years to go.

14 I understand that the foreign industries
15 here are saying that they will not come back and they
16 have no interest in this market. Keep in mind that
17 according to World Steel Association data almost one-
18 fifth of global crude steel capacity is currently not
19 being used, the vast amount of that available to make
20 hot-rolled steel. With all the global excess capacity
21 out there with many of these producers being pushed
22 out of their other export markets, with pricing in the
23 U.S. now more favorable from alternative export
24 designations it's hard to imagine that the subject
25 producers would not return in force.

1 They are here aggressively before you for a
2 very good reason. U.S. remains one of the biggest,
3 most open and most attractive markets globally and
4 they, like other steel producers around the world, are
5 keenly interested in finding stable and favorable
6 outlets for their products.

7 We are a very competitive market. Numerous
8 sources of supply, both imports and domestic. This
9 industry is coming out of two years in which it was
10 overwhelmed by one of the worst financial and economic
11 crises in our country's history, and out of a 12-year
12 period in which its performance has been wholly
13 unsatisfactory. We do not need a single ton of
14 unfairly traded product in this market, much less the
15 kind of tonnage we know we will see if these orders
16 are lifted.

17 I will put the men and women of U.S. Steel,
18 several of whom are with us today, up against any
19 steel producer on earth as long as the competition is
20 fair. That is all we are asking from this Commission
21 and I urge you to keep this mode of relief in place.

22 And if I may make one more additional
23 comment. I would like to take this opportunity on
24 behalf of everyone at United States Steel Corporation
25 to express our concern and our support for our many

1 Japanese colleagues and friends during this extremely
2 difficult time in their country. Thank you.

3 MR. LIGHTHIZER: I'd like to introduce Mr.
4 Daniel DiMicco from Nucor Corporation.

5 MR. DIMICCO: Good morning. Thank you,
6 Chairman Okun and Commissioners. I am Dan DiMicco,
7 Chairman and CEO of Nucor. I am here to talk with you
8 today about the current condition and the future
9 prospects of the U.S. hot-rolled steel industry.

10 On behalf of our 20,500 workers in 23
11 states, I am here to tell you that it is imperative
12 that the antidumping and countervailing duty orders on
13 hot-rolled steel from Brazil, Japan, and Russia remain
14 in place. First, let me give you an assessment of
15 market conditions.

16 We are starting slowly to come out of the
17 most painful period Nucor has ever had. Six years ago
18 you looked at the domestic hot-rolled steel industry
19 and found that we were vulnerable to injuries from
20 imports from Brazil, Japan, and Russia in hot-rolled
21 steel. Our industry is even more vulnerable today
22 than it was then. It pains me to say that, but it's
23 true.

24 The great recession hit Nucor and the entire
25 hot-rolled steel industry very hard. It took a

1 tremendous toll on us and our people. The entire
2 global market was crushed and we are only now starting
3 to emerge from that extremely difficult period. As a
4 whole our U.S. production, profits, and operating
5 margins are all the way down from where they were in
6 2004. Hot-rolled production is down 20 percent,
7 shipments are down 22 percent, and total wages are
8 down 18 percent. We found our industry vulnerable in
9 2004 when we were at 86 percent capacity utilization
10 in hot-rolled. Last year our industry as a whole,
11 using only 69 percent of capacity. In 2004, the
12 industry's operating margin was more than 21 percent.
13 In 2010, our industry was at only 2 percent, and 2009
14 was truly abysmal.

15 Nucor is still on the road to recovery. In
16 fourth quarter 2010, Nucor lost money. Only the
17 fourth quarter in our history, the three previous ones
18 being in 2009, that we have had a quarterly loss.
19 When that happens it affects every single person's
20 income at Nucor from senior management down to each
21 and every production workers. So make no mistake, the
22 last two years have been brutal, and we are extremely
23 vulnerable to imports from these countries.

24 Making matter worse, there are tens of
25 millions of tons of additional hot-rolled capacity

1 coming into the market. This new capacity is being
2 added all around the world based on projections made
3 before the recession, but have no reality and no
4 relation to reality today.

5 As this tonnage starts up, there is going to
6 be a huge problem because there is no place for it to
7 go. In fact, just last week in China, Tau Steel has
8 warned that it expects to decrease in global steel
9 demand in 2011, and that the Chinese steel industry
10 will be characterized by excessive steel capacity.

11 In terms of future demand, the marketplace
12 is still very uncertain. I think we started to
13 recover from this recession, but it's a hard and slow
14 process. Take the automotive sector. Most people
15 expected that about 13 million autos will be sold in
16 the United States this year. Before the recession,
17 the level of all sales was more like 17 million. So
18 we are way below where we were, and that has lost
19 ground that we probably will never make up.

20 The construction industry, which is
21 particularly important to Nucor, is even worse. The
22 bottom dropped out of both the residential and
23 nonresidential sectors and has remained flat since
24 then. Building activity is very weak in this sector
25 and our real risk that construction will not come back

1 for years. We will not have a real economic recovery
2 without construction, but we are just not seeing the
3 kind of same demand in that sector that we need.

4 We have increased our hot-rolled prices
5 recently, but that is because our raw material cost
6 increase which have been massive, not because the
7 market is strong.

8 If these orders are removed, Nucor has huge
9 concerns about the hot-rolled industry's ability to
10 recover in this market. Demand is anemic, and while
11 our sales have improved for the past few months, we
12 are less certain about what will happen down the road.

13 Last year, we had a decent first half of the
14 year followed by dismal third and fourth quarter.

15 That pattern can easily repeat itself again this year.
16 So with the U.S. industry vulnerable and demand
17 uncertain I can tell you exactly what will happen if
18 the orders on Brazil, Japan, and Russia are removed,
19 and it will not be pretty. There is no doubt that if
20 these orders are removed the imports will be back in
21 force. All three of these countries have excess
22 capacity. All three of these countries have become
23 more dependent on exports. All three of these
24 countries have shown that they can quickly shift their
25 hot-rolled sales to the best available market.

1 In Russia, they have huge amounts of hot-
2 rolled capacity, ready access to raw materials, expert
3 taxes on scrap, and producers that regularly export
4 about 30 percent of their production. These Russian
5 mills are losing their traditional export market such
6 as Turkey, which has greatly expanded its own hot-
7 rolled capacity in the last five year, so now Russia
8 needs to send its steel somewhere else, and we all
9 know where that will be.

10 Even with the dumping orders in place Nucor
11 sees Russian hot-rolled steel regularly being offered
12 here in the U.S. market where it is not needed, at
13 prices that are well below domestic pricing. They are
14 not a neutral or supplemental source of supply. If
15 the orders are revoked, I fully expect to see large
16 quantities of Russian hot-rolled being offered in the
17 United States at rock bottom prices.

18 In Brazil, the hot-rolled producers have
19 access to captive raw material sources and are adding
20 much more capacity than they need to serve their home
21 market. Even though Brazil's economy has grown, it
22 will never absorb all the new capacity that Brazilian
23 producers are building. There is just no way any
24 single event, even the Olympics or the World Cup, are
25 going to change the fundamentals of hot-rolled supply

1 and demand. It didn't in the United States and it
2 won't in Brazil, and of course trading operations
3 monitor Brazil very closely. We have no doubt that if
4 these orders are removed Brazilian exports will
5 quickly come back into the United States market.

6 One other note. It is incredible to me,
7 absolutely incredible that Brazil would complain about
8 these dumping orders while at the same time they
9 protect its home market with 12 percent tariffs and a
10 total of tariffs and taxation on imported steel 30
11 percent, and it now has new dumping orders on plate
12 imports, including Russia, and a pending case on
13 corrosion-resistant steel.

14 With regard to Japan, on behalf of everyone
15 at Nucor, we want to offer our heartfelt sympathy to
16 our Japanese friends and Japanese people for the
17 catastrophe that they have endured. Nucor has two
18 major partnership with Japanese companies here in the
19 United States. The earthquake and tsunami are a
20 terrible tragedy, and have brought devastation to so
21 many people in that country.

22 I have traveled to Japan regularly to meet
23 with our joint venture partners in Matsui and Yanama
24 Cogil, of which the latter is a major beam supplier.

25 It is probably too soon for anyone to make a

1 real assessment of that situation. For now I would
2 only note that over the last five years Japan's hot-
3 rolled producers have become increasingly dependent on
4 exports, and while Japan has exports to joint venture
5 in Asian countries, it also have ready markets and
6 strong relationships here in the United States with
7 automotive companies and others.

8 I have heard a lot of arguments that none of
9 these countries have any interest in the U.S. market.
10 I wonder why they are here today. Because they are
11 all too busy in Asia or Latin America or somewhere
12 else. I'm not buying it, not for one minute, and you
13 shouldn't either. The U.S. market has always been a
14 target for global producers and global traders because
15 of our size and openness. We don't have the kind of
16 tariffs and trade barriers that most other countries
17 have that they put in place without going through a
18 due process like we have here.

19 Most importantly, hot-rolled steel is sold
20 on the basis of price and U.S. hot-rolled prices are
21 very attractive right now. Based on published
22 industry data U.S. prices are about \$130 per ton
23 higher than hot-rolled prices in Europe and almost
24 \$200 per ton higher than the world price. Most of
25 that is due to imports.

1 It doesn't take much of a crystal ball to
2 figure out where traders will sell their Brazilian, or
3 Japanese, or Russian hot-rolled if they have the
4 chance. In fact, steel-using groups like AIIS and the
5 Precision Metal Formers are already predicting an
6 increase in hot-rolled imports based on our attractive
7 pricing. An increase in dumped imports from these
8 countries would have a devastating effect on an
9 industry already devastated by this recession.

10 We are coming up on two of our worst years
11 ever and are barely breaking even now. If the orders
12 are revoked, these imports will come back to the U.S.
13 market, they will undersell us and we will be injured.
14 The harm could take many different forms. It could
15 push us back to rock bottom where we were in 2009, or
16 could just undercut and delay our economic recovery.
17 But either of these results would be extremely harmful
18 to the company and our workers and our industry, and
19 either would justify keeping these orders in place.

20 Let me leave you with one final thought.
21 These orders are a critical part of our nation's
22 economic recovery. In addition to my role at Nucor, I
23 also sit on the U.S. Manufacturing Council at the
24 Department of Commerce, an advisory committee to the
25 Secretary of Commerce and the Administration. Ever

1 since the recession started I have been telling anyone
2 who would listen that the only way for our nation to
3 recover is through jobs, creating and maintaining good
4 middle-class jobs in the United States.

5 With an unemployment rate that is still way
6 too high, there is nothing more important to our
7 country at this time. But in the hot-rolled industry
8 we have gone in the wrong direction. We have 10,000
9 fewer jobs than we did in 1999, and millions of fewer
10 hours worked, and if companies like Nucor and Steel
11 Dynamics had laid our employees off instead of keeping
12 them because of our no layoff practice the numbers
13 would be worse.

14 This is unacceptable. It should be growing
15 and adding jobs, and the trade remedy orders on
16 Brazil, Japan, and Russia are essential to that
17 process. If these trade orders eliminated, our
18 industry's recovery will be delayed, we will be re-
19 injured, and our jobs will be lost. That is why it is
20 critical for our industry and our country for the
21 Commission to keep these orders in place. Thank you
22 all very much.

23 CHAIRMAN OKUN: Before we continue, we will
24 hear a member of our congressional delegation.

25 MR. BISHOP: The Honorable Tim Murphy,

1 United States Representative, 18th District,
2 Pennsylvania.

3 CHAIRPERSON OKUN: Good morning, and
4 welcome, Congressman.

5 REPRESENTATIVE MURPHY: Good morning. I
6 want to thank the Commission for the chance to testify
7 today, and for your professionalism in enforcing our
8 trade laws. I am here as a Member of Congress, but
9 also the Chairman of the Steel Caucus.

10 As you know, this Commission plays a very
11 critical role in U.S. trade policy, and Congress has
12 clearly designed the anti-dumping and countervailing
13 duty laws to prevent unfairly traded imports from
14 hurting domestic producers.

15 Those laws can only be effective if you, the
16 members of this Commission, do your job, strictly
17 enforce the law as written, and I know that is your
18 intent.

19 Today you're here to consider five-year
20 reviews of orders on dumped and subsidized hot-rolled
21 steel from Brazil, Japan, and Russia. For over a
22 century, steel production has been central to the
23 economy of western Pennsylvania, and hot-rolled steel,
24 which is produced by United States Steel at the
25 Monongohela River Valley area of Pittsburgh, is

1 critical to the long-term survival of American steel
2 production.

3 The corrosion-resistant steel on your cars,
4 the cold-rolled steel used to make appliances, all of
5 it is made from hot-rolled steel, and all of it
6 depends on a healthy domestic hot-roll industry.

7 To make sure that we are developing the new
8 flat-rolled products of the future, we need a
9 successful hot-rolled industry in our country. These
10 orders were put in place in 1999 in response to one of
11 the most devastating floods of imports ever
12 experienced by domestic steel producers. Subject
13 imports soared from 1.3 million tons in 1996 to almost
14 7 million tons by 1998. The results were calamity.

15 Although 1998 was a very strong year for
16 U.S. hot-rolled demand, domestic producers earned an
17 operating margin of only 2.6 percent because of the
18 effects of unfair trade.

19 Unable to make a healthy profit during good
20 years, the industry was almost destroyed by this
21 import surge, and the recession that began with the
22 end of the dot-com bubble.

23 Fortunately, thanks to the combination of
24 regressive trade relief and the hard work of American
25 steel producers and American steel workers, this

1 industry has survived. But the events of that time
2 stand as a powerful warning of how quickly this market
3 can be overwhelmed by unfair trade, and how harmful
4 such trade can be.

5 These orders have been very effective, and
6 the American producers have been able to operate
7 without fear of another surge of unfair trade from
8 Brazil, Japan, and Russia. Unfortunately, however,
9 American steel producers face other serious problems.

10 As I'm sure you know, both our economy and
11 the world economy is struggling to recover from one of
12 the world's worst economic crises in recent history.
13 Last year, U.S. producers used less than 70 percent of
14 their hot-rolled capacity. Over the last two years,
15 domestic producers have not only been forced to deal
16 with massive shutdowns and layoffs, they have lost
17 over \$1.7 billion. In short, this industry is
18 hurting, and it's certainly in no condition to deal
19 with any more dumped and subsidized goods, and be able
20 to survive.

21 There is no question this industry is
22 vulnerable to further injury if the orders at issue
23 here are lifted. And there is no question that these
24 foreign producers would dump in our market again.

25 With all the excess capacity on world

1 markets, with new mills being built around the world,
2 these producers would be more than eager to return to
3 the U.S. market and establish a major foothold here
4 again.

5 Given the severity of our current economic
6 problems, the harm that domestic producers have
7 already suffered in recent years, and the numerous
8 challenges that still face all American workers and
9 businesses, any increase in dumped and subsidized
10 imports would do grave harm to the American companies
11 and workers before you today.

12 The industry is not seeking a handout or a
13 subsidy. It is seeking a need to maintain fairness in
14 the marketplace. Without the steel industry in
15 America, we become permanently dependent on foreign
16 imports for automobiles, machinery, and products for
17 our national defense.

18 Accordingly, it would be a serious mistake
19 to lift the relief at issue at this time. I urge you
20 to keep this relief in place, with the goal of free
21 and fair trade, and give domestic producers the chance
22 to recover from concerns about unfair trade.

23 As Chairman of the Congressional Steel
24 Caucus, I'd like to leave with you a letter signed by
25 57 of my House colleagues who join me in voicing this

1 concern over the future of the domestic steel
2 industry. And I urge you to keep this relief in
3 place. Thank you.

4 CHAIRPERSON OKUN: Thank you. Without
5 objection, the letter will be made part of the record.
6 Does anyone have questions for the Congressman?

7 (No response.)

8 CHAIRPERSON OKUN: Thank you for your
9 testimony.

10 REPRESENTATIVE MURPHY: Thank you very much.

11 CHAIRPERSON OKUN: This panel can resume
12 their testimony.

13 MR. BUSSE: Good morning, Chairman Okun and
14 members of the Commission. I'll try not to re-cover
15 the ground already covered by my colleagues to my
16 left, as they did a very adequate job with many of the
17 facts to be presented here today.

18 Having said that, I am Keith Busse, and I am
19 a founder, chairman, and CEO of Steel Dynamics. Our
20 hot-rolled mill in Butler, Indiana is our original
21 Greenfield mini-mill which we built in 1995, and
22 started production in 1996. We have never stopped
23 reinvesting in this facility.

24 Since the last sunset review, investments in
25 our two electric furnaces at Butler have allowed us to

1 increase our hot-rolled capacity and reduce our energy
2 usage per ton of output.

3 We have experienced some other major changes
4 since the last sunset review of these cases. First,
5 we became the first flat-rolled mini-mill to buy a
6 major scrap operation when we purchased Omni Source in
7 October of 2007. We have also begun operations at
8 Masabi Nugget in Minnesota, in January of 2010, in
9 order to transform iron ore from the shuttered Hoyt
10 Lakes Iron Ore Mine into a pig-iron substitute for our
11 electric furnaces.

12 Secondly, we have purchased a group of
13 galvanizers called the Techs in the year 2005, which
14 are comprised of three galvanizing plants in the
15 Pittsburgh area. This gave SDI an additional one
16 million tons of galvanizing capacity.

17 Since these purchases, the Techs have bought
18 most of their hot-rolled and cold-rolled feed stock
19 from nearby mills, not from Butler. This is because,
20 in a fair-trade environment, we are not a freight-
21 competitive provider of flat-rolled steels to the
22 Techs.

23 By the same token, hot-rolled producers in
24 Japan, Russia, and Brazil are not freight-competitive
25 producers with U.S. producers in the U.S. market.

1 SDI believes in free and fair trade, but
2 prices in Japan are maintained at high levels because
3 of cozy keiretsu relationships. Brazil and Russia
4 have high tariffs on steel products, compared to our
5 zero tariffs, which allows their prices to be higher
6 in their home markets.

7 Our company is considering a new Greenfield
8 mini-mill in order to capture some of the Techs
9 business profitability to others, as well as numerous
10 other market opportunities. In this new mill we would
11 likely install a vacuum degasser, which would allow us
12 to penetrate the deep-drawing quality market for
13 automotive and appliance sectors.

14 However, to get a return of that type on
15 future investments, we need market prices to be set by
16 normal supply-and-demand consideration. Large volumes
17 of dumped products from very large industries in
18 Brazil, Japan, and Russia will add unfairly traded
19 supply to the U.S. market, and push down market
20 prices.

21 While our plans for this new Greenfield
22 mini-mill are still on the drawing board, and with no
23 location selected or board approval of capital
24 expenditures, any increase in unfairly traded imports
25 from these subject countries would certainly be a

1 strong negative factor against the consideration of
2 this investment.

3 We know that our domestic competitors,
4 whether mini-mill or integrated, are playing on the
5 same playing field that we're playing on. This is not
6 true of these subject countries that were found in
7 cases where we were leading participants to dump their
8 products, and who the Department of Commerce says will
9 dump again into the U.S. market.

10 For those reasons, and on behalf of Steel
11 Dynamics' approximately 675 employees at our Butler
12 plant and our 6,000 employees company-wide, we ask
13 that these duties be continued. Thank you.

14 MR. MULL: Good morning. I am Daniel Mull,
15 the Executive Vice President for Sales and Marketing
16 of ArcelorMittal USA. I've held this position for
17 five years, and have worked in the steel industry for
18 over 37 years.

19 I am accompanied this morning by Mr. Roy
20 Platz, Director of Marketing for ArcelorMittal USA.
21 We appear today in support of the continuation of the
22 Hot-Rolled Steel Suspension Agreement with Russia, and
23 the outstanding orders against hot-rolled steel from
24 Japan and Brazil.

25 Recent years for our industry have been

1 bleak. U.S. demand for hot-rolled steel in 2009 and
2 2010 fell to its lowest point in the past 15 years.
3 The recent recession hit our industry very hard.
4 Production and shipments of hot-rolled steel are well
5 below levels reached in 2004 and 2005. Capacity has
6 been significantly under-utilized in the past three
7 years. Plants have been idled, and significant
8 cutbacks in our work force occurred.

9 ArcelorMittal USA was forced to reduce the
10 number of crews at our facilities in Indiana and Ohio.
11 Many of those employees were out of work for most of
12 the past two years.

13 In addition, the industry's profitability
14 has plummeted. Our industry suffered substantial
15 financial losses in 2009, and was operating at barely
16 above a break-even level in 2010. That level was even
17 worse than the industry's operating profit ratio in
18 the year before trade remedies were originally
19 provided.

20 To further complicate matters, raw material
21 costs have been highly volatile in recent years, with
22 some significant cost increases contributing to our
23 inability to earn profits. Falling demand and rising
24 costs are not a recipe for health in any industry.

25 The foreign producers contend that the

1 market has turned around in 2011. They claim that our
2 industry could easily withstand renewed competition
3 from unfairly traded imports. I strongly disagree.

4 Although the market has shown some
5 improvement in 2011, we still face a lot of
6 uncertainties. You may recall that the first part of
7 last year also saw an increase in demand, which was
8 quite encouraging. Unfortunately, the second half of
9 2010 saw the market contract again. So we need to
10 temper our hopes.

11 Demand for hot-rolled steel depends to a
12 large extent on the construction market. To date, we
13 have seen no real rebound in that sector, and we
14 certainly project none in the near future.

15 While demand for hot-rolled steel has
16 increased in some areas, you must remember that these
17 increases are relative to the 2009 and 2010 record-low
18 demand levels. We are not anticipating demand in the
19 foreseeable future to return to healthy levels reached
20 just a few years ago.

21 Realistically, we are hoping for a sustained
22 recovery, so that we can increase sales, production,
23 and our capacity utilization in the United States. We
24 also hope to hire back laid-off workers at our
25 facilities, and have just begun bringing some steel

1 workers back to work. We don't want to have to lay
2 them off again.

3 Unfortunately, there is no doubt that,
4 absent this trade relief, subject imports would again
5 quickly surge into our markets to injurious levels,
6 and threaten those jobs once again.

7 Russia remains a threat to our market. It
8 was the largest volume of unfair imports before trade
9 relief was provided, and those imports from Russia had
10 the lowest prices, as well. Not only has Russia
11 maintained substantial capacity, it has capacity
12 expansions in the works.

13 We understand that MKK in particular will
14 have more hot-rolled capacity by the second half of
15 this year, and is looking to export this capacity.
16 These Russian capacity expansions are occurring,
17 despite the more than three million tons of unused
18 capacity already existing in that country.

19 Notably, Russia continues to place a heavy
20 emphasis on exports generally, including to our
21 market. Russian hot-rolled steel has entered the
22 United States in appreciable quantities during the
23 past five years, and has shown significant
24 fluctuations as market conditions have changed.

25 As you may recall, at the last sunset

1 hearing in this case, witnesses for the Russian steel
2 industry testified that relatively higher U.S. prices
3 caused them to shift exports to the United States.
4 This admission by the Russian producers is a real
5 cause for concern today, because hot-rolled steel
6 prices in the United States are currently higher than
7 prices in the rest of the world.

8 Russian hot-rolled prices in recent years
9 have been extremely low, and Russian producers are
10 particularly opportunistic about surging into markets
11 when competitive conditions warrant it. They are
12 likely to react to the termination of the suspension
13 agreement with precisely such a surge of low-priced
14 imports into the United States.

15 We are already seeing quotes this year for
16 sales of Russian product from Severstal at low prices.
17 Severstal also recently sold off a significant portion
18 of U.S. capacity. Clearly, its ownership of the
19 remaining U.S. mills is not preventing it from
20 offering hot-rolled steel to the United States at low
21 prices that undersell the domestic industry.

22 Japanese producers are export-driven, and
23 have also increased their capacity to produce hot-
24 rolled steel. Over-capacity in the Asian market,
25 particularly China, means that there will be

1 substantial capacity to direct to the United States to
2 take advantage of higher prices here.

3 There are also very good reasons to expect
4 that imports from Brazil are likely to increase if the
5 orders are revoked. The most noteworthy new phenomena
6 in Brazil have been the surge of low-priced imports
7 into that market, displacing Brazilian producers'
8 sales to their home market, and depressing prices to
9 some extent, as well.

10 The other development has been several
11 capacity expansions, along with the announcement of
12 two market entrants into the hot-rolled steel industry
13 in Brazil.

14 The domestic industry's condition is already
15 fragile, given the extended recessionary period we
16 have experienced. And our fortunes in this market can
17 turn on a dime. We will quickly suffer both trade and
18 financial injury if significant volumes of imports are
19 permitted to return to this market and sell at dumped
20 prices.

21 The brief upturn we have seen in early 2011
22 will be quickly reversed, and the recovery we need,
23 and have been hoping for, after the past two years
24 will disappear. Recovery for my company and the hot-
25 rolled steel industry depends on the retention of

1 these trade remedies, and I urge you to keep them in
2 place. Thank you.

3 MR. POSPISIL: Good morning, Chairman Okun
4 and members of the Commission. I am Tobin Pospisil,
5 President of Gallatin Steel in Gent, Kentucky. I have
6 been in the steel industry for 21 years, and have been
7 President of Gallatin since 2009.

8 Gallatin was built as a Greenfield mini-mill
9 starting operations in '95. Today it's a 50-50 joint
10 venture between Brudal and ArcelorMittal. We are only
11 a hot-rolled coil producer. We have no cold rolling
12 or galvanizing operations. Therefore, the
13 continuation of these hot-rolled orders against
14 Brazil, Japan, and Russia are critical to Gallatin
15 Steel, because we have no other markets to pursue if
16 unfairly traded imports of hot-roll return to the U.S.
17 market.

18 Like every other company in America, we
19 suffered greatly during the 2008 recession and its
20 aftermath. However, as a matter of company values, we
21 did not lay off any associates or cut their benefits,
22 but we were forced to drastically reduce their hours,
23 which inflicted substantial pain on them.

24 For months at a time in late 2008 and early
25 2009, we operated the mill only from Friday through

1 Sunday, so that we could reduce costs by operating our
2 electric furnace when power was at its cheapest rate.
3 We used this long period of extended down times,
4 however, to refine our operating processes, so that
5 even without any major capital expenditures, when the
6 market began to return to an increased level of
7 demand, we have been able to help satisfy this
8 increased market demand by producing more hot-rolled
9 products on the same equipment than we ever have in
10 the history of Gallatin Steel.

11 From my vantage point, we see markets
12 starting to rebound for just about all end uses of our
13 products, but nowhere near as high as the high-demand
14 levels at the peak during the last economic expansion
15 in 2007. Construction is the big exception to this
16 recovery in demand, as it continues along at very weak
17 levels.

18 As a one-trick pony making only hot-rolled
19 coil, Gallatin believes that our equipment and our
20 associates are able to produce the best-quality hot-
21 rolled coil at the lowest cost to our customers. On
22 behalf of those associates, we ask this Commission to
23 continue these orders, so that our associates have a
24 chance, in 2011, to continue to try to recover from
25 the huge financial hole they were pushed into in late

1 2008.

2 Thank you for your time and consideration.

3 MR. CONWAY: Good morning, Chairman Okun and
4 members of the Commission. My name is Tom Conway,
5 Vice President of the Steelworkers Union. I
6 appreciate the opportunity to testify before you on
7 behalf of the thousands of Steelworker members who
8 make hot-rolled steel. I'd also like to extend my
9 personal appreciation to the Steelworker members who
10 joined me here in the audience. I'd ask them to stand
11 for a second.

12 Like me, they've come here today -- you'll
13 recognize them, we're not in the dark suits. Like me,
14 they've come here today to support, show their support
15 for these trade actions against the dumped, subsidized
16 imports of the hot-rolled steel from Brazil, Japan,
17 and Russia.

18 Steelworker members produce hot-rolled steel
19 at over 20 facilities and supporting operations, such
20 as coke and iron ore suppliers, including about 21,000
21 employees, both union and management. Let me
22 emphasize, those jobs are at risk from these unfairly
23 traded dumps and subsidized imports. That's what
24 we're here fighting about today.

25 For those members, and for all the members

1 of the Steelworkers, I want to say clearly that we can
2 beat the import competition from any country, so long
3 as it's fair. Steelworker members are working very
4 hard; we play by the rules. We expect others to do
5 the same.

6 They also expect that our government will
7 make foreign producers play by the rules, by enforcing
8 the trade laws. Continuing these trade remedies
9 against these hot-rolled steel from Russia, Japan, and
10 Brazil is critical to the future of our members and
11 our retirees.

12 Unionized steelworkers have sacrificed over
13 and over during the last decade to save the U.S. steel
14 industry, jobs in the industry, and the benefits and
15 dignity of our retirees. We've agreed to the
16 consolidation of the steel companies, major workforce
17 reductions, changes in work place rules to increase
18 productivity. Our members and retirees have suffered
19 layoffs, forced retirement, billions of dollars in
20 lawsuits, and substantial reductions in our benefits
21 and pensions provided in our healthcare.

22 Why did this happen? Because many of our
23 steel companies were driven into bankruptcy by the
24 unfair trading in steel products that went on. For
25 these workers, unfair trade imports cost them their

1 entire life's work.

2 The union and its members and our retirees
3 have done everything possible to ensure the viability
4 of this industry, which has been hurt by trade
5 practices over the years. Factors like this unfair
6 trade are beyond our control, but they are within your
7 control.

8 These orders must be continued, particularly
9 following the deep recession from which the industry
10 is just starting to emerge. With trade orders in
11 place against the traders in these hot-rolled steel,
12 companies were able to earn modest profits from 2004
13 to 2008. This meant jobs for our members, and some
14 additional benefits for our retirees.

15 During this time, this union insisted that
16 the steel companies contribute into voluntary employee
17 VIVA funds or VIVA accounts in order to help provide
18 healthcare, prescription drug benefits, supplemental
19 Medicare for current and future retirees.

20 Unfortunately, in the fall of 2008, the
21 economy went into a recession, and demand for steel
22 products plummeted, which hurt us in a great many
23 ways. This has greatly weakened our hot-roll
24 producers, and all those working in this industry as a
25 result.

1 The evidence is clear: lost jobs, shut-down
2 furnaces, rolling mills, capital expenditures deferred
3 or canceled, and VIVA payments deferred. And our
4 members are some facilities are also working at
5 reduced incentive payments and pay schemes that the
6 plant levels for the same reasons.

7 In the case of the Severstal plants in
8 Maryland, West Virginia, we weren't able to get new
9 labor agreements until very recently, and we're trying
10 to reopen and restart those facilities right now. For
11 our members there, this has been an incredibly poor
12 market conditions, poor timing. Those members have
13 lost wages and benefits as a result.

14 As a further result, our members and other
15 workers are extremely vulnerable today. Fortunately,
16 the market has begun to show some recovery. But that
17 recovery is by no means complete, or even certain.
18 The industry is far from healthy still. We are just
19 starting to see mills reopen and steel workers get
20 back to work, and we're glad to see that some of our
21 members at the Severstal mills that were just sold to
22 Renco will be going back to work.

23 But for this recovery to continue, the mills
24 need to be able to increase prices to cover rising raw
25 material costs and regain some profitability or

1 reasonable level. They need to be able to increase
2 their production and sales, so that we can continue to
3 reopen facilities and put American steel workers back
4 to work.

5 While steel prices have been going up, much
6 of that increase is plowed back into raw material
7 costs, rather than margin for the companies. Coming
8 on two-plus very tough years, simply covering raw
9 material and cost increases does not solve the problem
10 for the industry or for the union.

11 This business has become very tentative.
12 It's hand-to-mouth, frankly like nothing I've ever
13 seen in the years I've been associated with it. The
14 industry is still very vulnerable. So it worries the
15 union a great deal that if dumped imports are going to
16 be allowed back into the market again, especially from
17 large export-oriented sources like Russia, Brazil, and
18 Japan; if that happens, the pressure on pricing will
19 cause the profits to dry up again, and plants that are
20 just starting to get on their feet and open will
21 suffer and close. Steel workers and their families
22 and communities will again be hurt in such tremendous
23 ways.

24 In 2005 this Commission continued the orders
25 and the suspension agreement, and you gave the hot-

1 roll industry a chance to get back on its feet after a
2 very difficult period. On behalf of myself and our
3 members, I want to thank you for that. In response to
4 that chance, the union and companies continued to make
5 the necessary changes that the industry needed to do
6 to put us back into profitability. It could not have
7 happened without these trade remedies against these
8 three countries - Russia, Japan, and Brazil.

9 So once again, our future lies in your
10 hands. On behalf of the union members who make the
11 hot-rolled steel, the retirees that depend on the
12 health of the industry, and all the communities they
13 support, I urge the Commission to grant our workers in
14 this industry the relief they need by continuing the
15 orders against this hot-rolled steel from these
16 countries. Thank you very much.

17 MR. SCHERRBAUM: Good morning. I'm Joe
18 Scherrbaum, Vice President of Sales, United States
19 Steel Corporation. Thank you for the opportunity to
20 give you our analysis of the steel market conditions.

21 I would like to give you four reasons why we
22 are very worried about the prospects of a new surge of
23 dumped and subsidized imports from Brazil, Japan, and
24 Russia.

25 First, market conditions are very fragile.

1 Demand is still relatively weak. CRU estimates that
2 total U.S. consumption of hot-rolled steel will not
3 return to 2007 levels until 2015.

4 There are a number of factors, from the
5 European credit crisis to unrest in the Middle East,
6 to the fallout of the Japanese earthquake. It all
7 could tip the world economy back into a full-blown
8 recession. So we are very concerned about sales
9 volumes.

10 In addition, we face problems with higher
11 raw material costs, as subsidized steel production in
12 China has helped drive up costs for iron ore, coal,
13 coke, and other key inputs. So domestic producers
14 have been forced to seek higher prices, which we
15 desperately need in order to return to healthy profit
16 levels in a period of questionable demand.

17 Second, our efforts to return to
18 profitability will not succeed if this market is hit
19 with a significant wave of dumped and subsidized
20 imports from the subject countries.

21 Hot-rolled steel is, for the most part, a
22 commodity product sold on the basis of price. Indeed,
23 if this is the most open market in the world,
24 featuring many service centers and end users who are
25 strictly focused on getting hot-rolled steel at the

1 lowest possible price, those customers will not
2 hesitate to buy from mills in Brazil, Japan, and
3 Russia, mills which are well-known in this market, and
4 which have a long history here.

5 If imports from those countries come back in
6 significant numbers, they will certainly drive down
7 U.S. prices, and take sales from domestic producers.

8 Third, Brazil, Japan, and Russia are
9 significant net exporters of hot-rolled steel. CRU's
10 latest estimate is that in 2011, total net exports
11 from those three countries will total almost 13
12 million tons.

13 Furthermore, I understand that each of those
14 countries reported having significant volumes of
15 excess capacity in 2010. When you consider that new
16 capacity is being built around the world, including in
17 the subject countries, and that subject producers are
18 facing new competition in key export markets, I simply
19 don't see any plausible scenario under which subject
20 mills would not return in force.

21 I know about selling steel, and no good
22 salesman would want to stay out of a market as large
23 and open as the United States.

24 Fourth, while our markets remain relatively
25 weak, by historic standards, the price increases I

1 mentioned earlier make this market extremely
2 attractive to foreign mills. The most recent pricing
3 comparison from World Steel Dynamics shows that the
4 U.S. price for hot-rolled band is \$201 per metric ton
5 higher than the world export price.

6 We haven't seen gaps between the U.S. price
7 and export prices of this magnitude since 2006, the
8 last time we faced a significant surge of imports.
9 Not surprisingly, in the last few weeks we have become
10 aware of multiple new offers from Russian mills of
11 hot-rolled steel at prices more than \$100 per ton
12 below domestic prices. As always, such offers force
13 us to choose between losing sales and cutting prices,
14 at a time when we cannot afford to do either.

15 In short, with relief in place, we should be
16 eventually able to return pricing and profits to
17 sustainable levels. But without relief, we face the
18 very real prospect of a major surge in imports, at the
19 same time we are also dealing with weak demand and
20 high raw material costs. Such a combination would
21 have severe consequences for everyone in this
22 industry.

23 To avoid these consequences, we urge you to
24 maintain the relief at issue here, and to preserve
25 true market competition. Thank you.

1 MR. LIGHTHIZER: Madame Chairman, that
2 concludes our presentation. We'd like to reserve the
3 rest of our time, if we could, and submit to questions
4 from the Commission.

5 CHAIRPERSON OKUN: Thank you. Before we
6 begin those questions, let me take this opportunity to
7 thank all the witnesses for being here; in particular,
8 to thank the industry leaders for taking the time from
9 your businesses to be here to help answer the
10 Commission's questions; to Mr. Conway for being here
11 for labor, and for the workers who have taken the time
12 to join us today and observe the hearings. We welcome
13 you in particular, as well.

14 Just a reminder. If you can just restate
15 your name when you are responding to questions for the
16 benefit of the court reporter. And Commissioner
17 Pinkert will begin the questions this morning.

18 COMMISSIONER PINKERT: Thank you, Madame
19 Chairman. And I thank all of you, including the steel
20 workers, for being here today to help us to understand
21 the condition in the industry.

22 I want to begin with something that Mr.
23 Surma mentioned during his testimony, the returns to
24 shareholders in the industry during the period of
25 review. For the post-hearing, is there any way, both

1 for your company and for all of the companies in the
2 industry, to quantify the returns to the shareholders,
3 not just the operating profits?

4 MR. SURMA: John Surma from U.S. Steel.
5 Yes, sir, I think, Commissioner Pinkert, we could ask
6 our counsel to compile that data. We would measure a
7 number of things, but total shareholder return, TSR,
8 is a common measure we use for a variety of other
9 purposes. And it would be reflective of what
10 shareholder returns were over whatever period.

11 So if we could just have an idea of the
12 period, if it's the period under review, we could do
13 that quite easily.

14 COMMISSIONER PINKERT: The period under
15 review. Thank you.

16 Now, I heard Mr. Mull's testimony, which
17 touched on the question of whether a foreign subject
18 entity might harm or do anything to harm its
19 respective domestic affiliate. And I'm wondering,
20 just on a more general level, how this panel responds
21 to the argument that ArcelorMittal's, Severstal's, and
22 JFE's foreign subject entities won't do anything that
23 might have an adverse impact on their domestic
24 affiliates. Mr. Rosenthal? Or is there somebody else
25 that would like to - Mr. Lighthizer.

1 MR. LIGHTHIZER: Yes. First of all, I
2 guess, Commissioner, from counsel's point of view, I
3 guess I'd make a point on the return to shareholders.
4 That will be for the whole entity, not just for the
5 hot-rolled industry, and so we'll try to sort that out
6 with the Commission's staff in a way that makes that
7 as meaningful as we can. Because otherwise it won't
8 quite match up with the profit numbers you have. But
9 we'll sort that out with Doug and his staff.

10 This issue of affiliates is something that
11 has come up in past cases. I would say, first of all,
12 we don't agree with the idea that affiliates are not
13 going to do anything in this market that will hurt
14 this market.

15 Our position, when we've argued this before,
16 has been that they won't do anything to hurt
17 themselves, but they may very well do something to
18 hurt us. So they will figure out a way to maximize
19 profit in the U.S. market for their entity. And that
20 might have the effect of having an adverse impact on
21 U.S. Steel or Nucor, someone who is not an affiliate.

22 So I think that's an important point to
23 make. And if, you know, to talk about that further if
24 you'd like. Because some on the Commission, you know,
25 seem not to have agreed with that in the past. And I

1 think it's clear that if you have an affiliate, you
2 can sell at slightly lower than market price, and make
3 much more money by shipping more, by being able to
4 ship more steel at that lower price from your home
5 market. So I think that's the first thing I would
6 say.

7 The second thing I would say, that in any
8 event, this is not that case, right. This is not a
9 case, I think, where I have to try to convince you
10 again that that's the situation.

11 Because in this case, in every country we
12 have people who are not affiliates, who in fact are
13 dangerous to us. So even if you buy the argument that
14 it's unlikely or less likely that a person with an
15 affiliate, a U.S. enterprise, would not do something
16 to damage the market, the fact is that in Brazil, in
17 Russia and Japan, there are all people for whom you
18 should still vote affirmatively, because you want to
19 keep, you have to protect against those people.

20 But I think it's important to remember, this
21 is not that case. I don't have to convince you, we
22 don't have to convince you that these people won't do
23 anything to hurt our market, because in every case
24 there's another country out there.

25 The final thing I'd say is, I think that as

1 you think this through on the broader issue in this
2 and future cases, this idea that you can spend a few
3 dollars and buy a U.S. subsidiary, and that gets a
4 get-out-of-jail-free card, is a very dangerous, it's a
5 very dangerous idea. And it's really one that if it
6 troubled people, we ought to explore even more in our
7 brief. And I would volunteer to do that, because I
8 think it really is significant that we not tell unfair
9 traders that here is the way you can get around the
10 laws.

11 MR. ROSENTHAL: This is Paul Rosenthal,
12 ArcelorMittal. We don't look at this, nor should the
13 Commission look at this, in terms of general theory;
14 but rather, on the specific facts on record. And in
15 previous cases in which ArcelorMittal has been
16 involved, it put on the record very particular
17 information about how it operates under its guidelines
18 and under its approach. Which is precisely the reason
19 why the Commission made particular findings with
20 respect to ArcelorMittal USA. And those are
21 approaches that apply in this case in particular.

22 That said, you don't have it on the record
23 with respect to the other entities that were
24 mentioned. You don't know how they manage their
25 affairs. And you should not assume that they have the

1 same policy in place that ArcelorMittal USA has, where
2 all of the shipments from outside of the USA have to
3 essentially go through Mr. Mull, or somebody in his
4 position.

5 So I think it would be inappropriate to
6 assume that Severstal or anybody else would not come
7 into the U.S. market because there is a presence here.
8 You've heard just the opposite in terms of actual
9 factual information on this record.

10 So every one of these cases has to be looked
11 at for the particular facts of the record of the case.

12 MR. BUSSE: Commissioner, Keith Busse, Steel
13 Dynamics. In response to your question, there are
14 very few subjects under consideration here that have
15 affiliates in this country.

16 The Brazilians under consideration here at
17 the table today have one small galvanizer in Terre
18 Haute, Indiana. The Japanese have no steel-making
19 assets in this country. And the only Russian producer
20 that has assets in the United States is Severstal.
21 The other Russian producers do not have assets here.

22 MR. DiMICCO: Dan DiMicco with Nucor. I've
23 already given testimony of the recent events where
24 Severstal - and it does boggle the mind, I agree with
25 you - is actually shipping into the U.S. market

1 product undercutting its own operations here in the
2 United States. So the proof is, is real; it's out
3 there, it's documented. And so for them to say that
4 they would not do that makes no sense.

5 The other part that I would like to
6 reinforce is there are other steel companies in each
7 one of those countries that have no even close to
8 affiliates here in the United States, that should not
9 be released from this order. And as Keith says, the
10 operations that are here are relatively small, if they
11 exist at all, for the people testifying. Thank you.

12 COMMISSIONER PINKERT: Just a quick followup
13 on this. I take Mr. Rosenthal's point that of course,
14 we have to look at the facts of each particular
15 company. But in looking at those facts, is one thing
16 that I should be looking at the location of the
17 affiliate, and whether or not it serves the entire
18 U.S. market? Or whether it serves only in a regional
19 part of the market?

20 MS. SCHAGRIN: This is Roger Schagrin. Yes,
21 Commissioner Pinkert, that would certainly only be one
22 of the factors that will be appropriate for you to
23 look at, as well as changes that have occurred in the
24 U.S. market.

25 Obviously, Severstal went from being

1 possibly viewed as a national supplier with five mills
2 around the United States; they have now just, as of
3 only last week, I believe it was either March 31 or
4 April 1, sold three of those plants. So they now
5 basically have an automotive-oriented production
6 facility in the Detroit, Michigan area, the Old Rouge
7 Steel. And now they have a new mini-mill which they
8 are expanding in Mississippi. So they're probably a
9 plant or a company viewed as a national supplier.

10 The other thing to point out is not only
11 should you focus on the regionality or the particular
12 circumstances of the affiliation in the U.S., but of
13 course, as I think was just touched on in answer to
14 your previous question, the situation in the foreign
15 market.

16 In the previous hot-rolled reviews, this
17 Commission was looking at facts in which the
18 ArcelorMittal-related mills were generally the only
19 producer, and represented 100 percent of, say,
20 production in Kazakhstan. These circumstances are
21 very different.

22 Here, the foreign mills with affiliates in
23 the United States are generally a significant minority
24 of those industries, whether it's the related
25 ArcelorMittal mill in Brazil compared to the entire

1 Brazilian industry, Severstal compared to the Russian
2 industry, or JFE, which has an interest in a
3 California producer, which is very regional in terms
4 of CSI. It's I think acknowledged to be a very
5 regional-oriented producer. Is a minority of the
6 Japanese industry.

7 So I think it's appropriate to look at the
8 facts both on the U.S. side, and the particular facts
9 in the foreign industry, when you're assessing the
10 relevance.

11 MR. ROSENTHAL: I see your red light is on,
12 Commissioner Pinkert, but I have to add one other
13 thing, if you don't mind. Again, very fact-specific.

14 ArcelorMittal has been on record, both in
15 testimony in the earlier proceedings, under oath, and
16 then in submissions made about its company policies
17 and approach, which have been verified. No other
18 company has done that.

19 And so for another company to come in and
20 say that it will hold harmless its domestic operation
21 I don't think is enough. You actually have to see
22 something more than what is presented for the other
23 companies.

24 I'm very comfortable with the ArcelorMittal
25 position. I haven't seen that from any other

1 companies mentioned. And I certainly agree with Mr.
2 Schagrin's view on regionality and the other factors
3 to look at.

4 COMMISSIONER PINKERT: Thank you. I'm past
5 the end of my question period.

6 MR. LIGHTHIZER: I would just say we
7 actually have offers from Severstal. So there is no
8 mystery about the fact that they want to come here.
9 And they, in fact, or at least the Russians did ship,
10 after that purchase, large in '04 and '06. So I'd say
11 that we have a pretty good record that they will come.

12 COMMISSIONER PINKERT: Thank you. Thank
13 you, Madame Chairman.

14 CHAIRPERSON OKUN: Thank you. And since I
15 would have asked that question, I believe it was
16 covered, I guess, for post-hearing, for counsel just
17 to be sure and put in the specific facts of this case
18 as you see them. Because I'm not sure that I saw that
19 addressed fully in terms of the affiliations.

20 And then as a followup on that, I'm not sure
21 how much you can say here, but would also want to
22 discuss, Respondents have also argued that the
23 relevant consideration with respect to non-subject
24 imports, and that the non-subject import presence
25 would simply be displaced by subject imports if the

1 orders were lifted because of these affiliations and
2 the control the U.S. producers have.

3 Can you address that here in terms of non-
4 subject imports, and whether you think that that is an
5 accurate description?

6 MR. LIGHTHIZER: Well, I guess I would say
7 first of all that to the extent, you know, the Brack
8 situation doesn't apply here, so, a considerably more
9 general question, presumably.

10 But our view is that to the extent that we
11 are competing with fair trade, we aren't bothered by
12 that. We think we'll do fine with respect to
13 competition against fair trade.

14 What troubles us is this competition with
15 unfair trade. And I think it's the testimony of all
16 the business people that if we're competing with fair
17 trade in our market, we're not worried about losing
18 sales to that, you know, an inordinate amount of sales
19 to fairly traded steel in our market.

20 CHAIRPERSON OKUN: Okay. And I think the
21 other part of the Respondent's argument, and again
22 producers who might be purchasing from North American
23 markets might be able to comment on this, is that
24 because there's an affiliation, it's a ton of steel
25 that they could produce domestically. And therefore,

1 if subject imports were in the market, they would just
2 bring back that production. So that's the
3 displacement.

4 And again, while it's not a Brack question
5 directly, it goes to what the impact would be, what
6 the volume would be and impact as we would normally
7 look at it. So, others want to jump in? Mr.
8 Schagrin.

9 MR. SCHAGRIN: Chairman Okun, this is Roger
10 Schagrin. I have to admit, having read that argument
11 in Respondent's brief, it's one that really doesn't
12 make a lot of sense. It may be one of these
13 producers, such as Mr. Surma, who has plants in
14 Canada, as well as the United States, can address it.

15 The idea that now we would have unfairly
16 traded imports coming into the U.S. market, and they
17 would not replace U.S. producers' products, but
18 instead would just be replacing U.S. producers'
19 affiliated mills in Canada's imports, like that's a
20 decision that Mr. Surma would make, with plants in
21 Canada and the United States.

22 Now, he can answer this better than I have,
23 but I -

24 CHAIRPERSON OKUN: Well, let's hear from Mr.
25 Surma. I want to hear the better.

1 MR. SCHAGRIN: It doesn't make any sense,
2 and I think Mr. Surma will agree that Respondents -

3 MR. SURMA: Thank you, Commissioner.

4 Initially I'll incorporate Mr. Schagrin's comments by
5 reference in my response, but I think he makes a very
6 good point. We have material that travels across the
7 border, all fair traded, it's all based on customer
8 needs, et cetera.

9 And for our benevolent opponents here to
10 suggest that in order for us to equalize the market by
11 discontinuing our fairly traded business activities to
12 equalize the market for their unfairly traded business
13 activities is benevolence we could do without. And we
14 would not do it that way. But we appreciate their
15 benevolence.

16 CHAIRPERSON OKUN: Yes, Mr. Hecht.

17 MR. HECHT: Jim Hecht. I just will follow
18 up; a lot of it is confidential. I think we can
19 safety say that that argument is absolutely
20 ridiculous, and not supported in any way by the
21 tonnages or pattern of trade you're seeing on the
22 record. If there's any suggestion that somehow we're
23 bringing this case or supporting this case to protect
24 Canadian activity, there is no record of it and for
25 that, whatsoever.

1 CHAIRPERSON OKUN: Okay. Appreciate your
2 telling us on that. Mr. Vaughn.

3 MR. VAUGHN: Yes, Commissioner Okun. I'd
4 just like to put in one factual point.

5 I mean, they, I was a bit mystified by the
6 emphasis on the non-subject imports. Your record
7 shows that in 1998, non-subject imports had 5.9
8 percent of the U.S. market, and last year they had 5.3
9 percent of the U.S. market. So the idea that there
10 has been this big upsurge of non-subject imports just
11 is not supported by the facts at all.

12 CHAIRPERSON OKUN: No other hands are up,
13 but I've actually heard enough response on that. And
14 I'll look forward to the descriptions for post-
15 hearing.

16 Mr. Rosenthal, I think this may be a post-
17 hearing question for you, just going back to
18 ArcelorMittal's position. Because I did go through
19 your brief to try to understand whether there had been
20 a change.

21 But if one were considering Brazil alone, is
22 there any different position - and you can do this
23 post-hearing - based on the facts for ArcelorMittal?

24 MR. ROSENTHAL: We're being very clear. We
25 support the continuation of the order with respect to

1 Brazil. Mr. Mull can tell you, the ArcelorMittal
2 position in Brazil is very small; I mean, they may
3 represent 25 percent of Brazilian production, and
4 going down as more Brazilian capacity comes onstream.

5 One of the reasons why they're here
6 supporting that order is because the vast majority of
7 Brazilian production does not report to Mr. Mull. The
8 other Brazilian producers will come here whether he
9 wants them to or not, and at prices that he likes or
10 not. So that's why we are in support of this order.

11 CHAIRPERSON OKUN: Okay. If you can just
12 make sure that that's on the record.

13 MR. MULL: We feel very strongly that we are
14 in support of the order. And we have no concerns that
15 any ArcelorMittal Brazilian material will be coming
16 in, because I won't approve it to come in. So that
17 will take care.

18 CHAIRPERSON OKUN: Okay, I appreciate all
19 those responses. Let me turn to another subject.

20 You have talked about the decline in
21 consumption in the U.S. market. And I know you have
22 provided information in briefs and talked about a
23 little bit today, the companies, what you see as your
24 projections for the future, and where there is still
25 weakness. And I know you've mentioned construction in

1 particular.

2 With respect to the attractiveness of the
3 U.S. market. If you look at the information on the
4 record and look at other areas of the, of the world,
5 in particular Asia, there is growing consumption. And
6 we've also heard about the Brazil market, the Brazil
7 home market. And I think Mr. DiMicco, you've pointed
8 out it is a protected home market, and they show some
9 pretty high prices there.

10 So the question is, is this market as
11 attractive to the subject importers as it was, again,
12 during the original investigation? Or even during the
13 first review, in terms of both market size, where this
14 market is going, vis-a-vis the other countries, where
15 they're sending the material?

16 MR. DiMICCO: Dan DiMicco at Nucor. I would
17 contend that it's probably more attractive,
18 particularly because of the amount of lower capacity
19 that's being, continues to be built around the world.

20 Turkey has almost completely displaced all
21 the Russian imports that were coming in supplying them
22 with hot band, by building their own facilities.
23 China has, you know, just built four or five hundred
24 million tons of capacity. Bao Steel, the largest
25 producer in China, as I testified in my testimony, is

1 telling folks that there's going to be over-capacity
2 in China because of the over-building and the slowing
3 of their economy.

4 And all of that, you know, the Chinese are
5 not opposed to going out there and selling steel at
6 any price. We have a protected market at home, like
7 all three of these countries do, as we've tried to
8 sell them to them and cannot. Except in very unusual
9 circumstances. Even with our Japanese partners, we
10 can't sell them to Japan.

11 You have that protective market, you can
12 afford to sell your excess capacity at significantly
13 lower prices because you have such higher prices in
14 your home market. And so they can fill their mills up
15 and ship that. And there is more capacity being built
16 in every one of these locations, in Russia and Brazil.
17 And it doesn't necessarily have to be built there,
18 because other countries are building it. And the
19 places they used to ship to, they're not going to be
20 able to ship to any more. And this stuff will just
21 move around.

22 CHAIRPERSON OKUN: And do you think that
23 that, the ability to move around or the
24 attractiveness, the incentive to move around, is
25 diminished if you have companies who have joint

1 ventures or other established operations? I know you
2 can't see everything in the record, and so I'll turn
3 to counsel, as well. But I'll point to Japan, in
4 particular. The Japanese producers put in information
5 with respect to where their orders are going, and why
6 those are long-term and why they wouldn't shift.

7 Do joint ventures matter in diminishing your
8 incentive to want to go to a different market?

9 MR. DiMICCO: I would say that in the case
10 of Japan in particular, being that you mentioned them,
11 they had a lot of those same affiliates here, back
12 when this order was first put in place. And it didn't
13 stop them. Okay, the Japanese car companies were
14 here. I assume that's who you're talking about in
15 terms of affiliates.

16 There are no, that I am aware of, any
17 Japanese steel companies, per se, in the United
18 States, other than our own partners.

19 CHAIRPERSON OKUN: I'm sorry. I was
20 arguing, I think I probably did not make that very
21 clear. I think the argument being made by the
22 companies or by the producers is that because they
23 have joint ventures existing in these other markets
24 that are growing markets, that they don't have an
25 incentive to take that, that's going to go into those

1 other markets - Asia, let's take Asia for example - if
2 you have a Japanese with joint venture in Asia's
3 growing markets. They don't have the incentive to
4 take those exports, and then ship them back to the
5 United States.

6 MR. DIMICCO: That's ridiculous. Because
7 the point I was just making is that China, for
8 example, they have, by their own admission, over-
9 capacity, a slowing market, versus the capacity that's
10 being built. So the tons that were going there in
11 joint ventures that may exist, where they only own
12 maybe 10 percent of that joint venture, there's no
13 major steel company in the world that has a major
14 ownership position in any Chinese steel company. That
15 would not deter them from redirecting. Because the
16 production in China, amongst all the domestic
17 producers there, will cause them to be squeezed out.
18 They're going to have excess capacity.

19 Look what's happening in Turkey, with all
20 the additional flat-roll that's been built there. The
21 Russians can't sell there any more. They're exporting
22 30 percent of their product on a regular basis. So is
23 Japan.

24 I talked to our partners in Japan. What
25 they tell me is that, you know, the steel mills ramped

1 up pretty decent after the nuclear accidents and the
2 unfortunate catastrophe with the tsunami and the
3 earthquake. But then they had no place to put the
4 steel that they were producing, because the customers
5 in Japan weren't running. Okay?

6 And you've heard about a number of plants
7 have been shut down in this country and around the
8 world because of parts not being available, and what-
9 have-you. So they've got no place to send the steel.
10 Toyota can't take it. And so where is it going to go?
11 The steel. It's not going to go into Japan, it's not
12 going to go into China. It's going to go someplace
13 else in the world.

14 And all this over-capacity will exist will
15 find its way to, as it always has, and history has
16 proven it over and over again unfortunately, to the
17 most open market in the world. And that's here.

18 CHAIRPERSON OKUN: Okay. My red light has
19 been on for some time. I know there are hands up, but
20 I'll have a chance to return to this.

21 Vice Chairman Williamson.

22 VICE CHAIRMAN WILLIAMSON: Thank you, Madame
23 Chairman. I, too, want to express my appreciation to
24 the witnesses for coming today. Now let's continue on
25 with the line of questioning the Chairman just made.

1 Mr. DiMicco, I'm sorry, how should we - can
2 you elaborate further on how we should evaluate the
3 impact of the tsunami in Japan? And I guess the
4 Respondents have talked about the fact that there will
5 be demand or increased consumption in Japan, you know,
6 for hot-rolled steel as the recovery effort goes on.

7 You talked about some things that I guess
8 have happened in short term, where, you know,
9 factories are still shut down, and I guess inventories
10 are building up. But can you sort of spin this out
11 over the next year or so?

12 MR. DiMICCO: Well, a lot of that is going
13 to be pure conjecture. But in general, when you have
14 catastrophes like this, of which there have been very
15 few, you know, initially there's disruptions. All the
16 supply chains, the production.

17 And so, you know, there is the inability to
18 provide the steel, and there's not an immediate
19 reconstruction that takes place. There's massive
20 cleanup efforts that have to take place first, and
21 decisions are made whether to rebuild in those
22 locations or not.

23 You read in the papers today, there's debate
24 about whether they should rebuild those cities in
25 those same locations or not.

1 So in time, you will see production get back
2 to normal, in terms of the customers, like Toyota, who
3 were buying steel from the integrated steel producers
4 in Japan. They will get back, caught up again. And
5 that process of parts being in short supply will
6 dissipate, I agree with you.

7 And at some point in time, the
8 reconstruction will take place. And there will be
9 steel needed for that. But the amount of steel needed
10 for that is nowhere near the amount of excess capacity
11 that's been brought onstream just in the last couple
12 years, let alone what's coming onstream as we go
13 forward.

14 So while it is a massive catastrophe, from
15 the standpoint of steel supply, it's really just a
16 blip on the radar.

17 VICE CHAIRMAN WILLIAMSON: Thank you for
18 that. Does anyone want to add, and I guess -

19 MR. Schagrin: Commissioner Williamson?

20 VICE CHAIRMAN WILLIAMSON: Yes?

21 MR. SCHAGRIN: This is Roger Schagrin.
22 While we, you know, all of our hearts go out to all of
23 those who suffered because of the earthquake and
24 tsunamis in Japan, amazingly, when we did this case
25 originally - and Mr. Busse mentioned we did this back

1 in 1998 - studying the past is probably the best
2 predictor of the future. Because Japan had the
3 horrific Kobe earthquake in 1995. It was actually
4 part of this Commission's investigation record in the
5 original investigation.

6 So you had on your record the information on
7 Japanese home market consumption from 1995 through
8 1998 in the original investigation, which encompassed
9 the rebuilding, huge rebuilding. Because Kobe was one
10 of the most industrial cities in Japan.

11 And the record showed there, and in terms of
12 consumption levels it's in your original investigation
13 final, the increase in consumption of hot-rolled in
14 Japan in the two to three years following the Kobe
15 earthquake was several hundred thousand tons. That
16 was the total increase in consumption for the whole
17 country of Japan. During a period of a pretty strong
18 economy, plus the rebuilding after the Kobe
19 earthquake. And that was with an industry at that
20 time that had over 50 million tons of capacity.

21 And I would submit the same thing here. You
22 know, when they're rebuilding these coastal fishing
23 towns, it's not a hot-rolled-intensive rebuilding.
24 It's rebar to rebuild roads. It's, you know, rebar
25 and structurals in terms of, you know, homes and

1 apartment buildings, not so much flat-roll.

2 But even an increase of several hundred
3 thousand tons, they've got a 50-million-ton industry
4 with five to 10 million tons of excess capacity.

5 So I really think this Commission can go
6 back and study its original record, and say what was
7 the effect of the Kobe earthquake, what's the likely
8 effect of rebuilding here. And I think you would find
9 it wouldn't remove the potential injury to the U.S.
10 industry.

11 I mean, we wish them the best in rebuilding,
12 but - and we'll do this in our post-hearing brief,
13 that you can see a similar circumstance. And yet, it
14 didn't remove us from the injurious imports at the
15 time of the original investigation.

16 MR. PRICE: Alan Price with Wiley Rein.
17 There actually is now at least one published article,
18 which we'll share with the Commission, that goes
19 through the rebuilding and steel consumption, what is
20 anticipated.

21 Roughly 85 to 90 percent of it is going to
22 go to the construction steels, which are essentially
23 what they're saying, is rebar and beam. There's a
24 very limited hot-rolled component to this.

25 We've seen natural disasters, as Mr.

1 Schagrin said, in Japan previously, and seen the
2 effects. Unfortunately, sadly, we saw in the U.S.
3 with Katrina very minimal effect on hot-rolled in
4 this. There's some; eventually houses get built, you
5 know, three to five years later, and some
6 refrigerators get consumed in it. But it is the
7 minority of steel here.

8 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
9 Mr. Lighthizer.

10 MR. LIGHTHIZER: Yes, Mr. Vice Chairman. I
11 guess I would add just one other thought in addition
12 to all this.

13 To me, when I'm analyzing it, it makes me
14 worry more about the state of the global economy than
15 anything else. There are a lot of speculation, a lot
16 of specific effects, and we can talk about that. But
17 to me, it makes me worry about whether or not we're
18 going to have a double-dip recession. And it makes me
19 worry about whether we're going to have a global
20 slowdown, all of which has the effect, I think, of
21 making this industry more vulnerable.

22 So to me, it's more of a vulnerability
23 point. It's something I think, in addition to all of
24 the other economic things you have to worry about, I
25 think this is one more question mark sort of hanging

1 over the whole thing.

2 VICE CHAIRMAN WILLIAMSON: Maybe post-
3 hearing you could present some analysis on that point.
4 Because I was wondering about how would that, why
5 would that be the case.

6 MR. LIGHTHIZER: Absolutely, we'll be happy
7 to. There's a lot written about that, and we'll be
8 happy to do it, Mr. Vice Chairman.

9 VICE CHAIRMAN WILLIAMSON: Okay. And then
10 I'll work with the material Mr. Price offered. Mr.
11 Busse.

12 MR. BUSSE: Thanks. Keith Busse, Steel
13 Dynamics. I think the impact is not only going to be
14 upon the Japanese people; there will be some impact
15 here in the United States. Shuttered assembly line
16 production. It's not so much steel that's going to be
17 in short supply, it's going to be electronic
18 components. And when you can't put the electronics in
19 the dashboard, the assembly line stops, and people
20 don't have a need for steel whether it's here or
21 Japan.

22 So I think, unfortunately I think there will
23 be a short-term global negative impact. I think the
24 greater consideration is the countries in question,
25 especially Brazil and Russia, have significant over-

1 capacity, and they're still growing capacity.

2 In the case of Japan, I don't know that
3 they're growing capacity, but they have significant
4 over-capacity.

5 I think the simplest answer is if they
6 didn't intend to bring a lot of product to this
7 market, you wouldn't be here responding.

8 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
9 I'm sorry, Mr. Vaughn?

10 MR. SCHERRBAUM: Joe Scherrbaum with U.S.
11 Steel. I'd just like to add, on the shorter-term
12 impact on this, we are continuing to get information
13 daily about what Mr. Busse said, the shorter yield of
14 electronic parts and its impact on the production
15 schedules of the automotive companies here in the
16 United States.

17 And it appears it is going to have a
18 significant impact on steel consumption by the
19 automotive companies here in the second quarter.

20 More to the point that we have a spreadsheet
21 that we're updating daily, just keeping track of
22 schedule changes due to lack of parts coming from
23 Japan in the short term.

24 VICE CHAIRMAN WILLIAMSON: Okay, thank you
25 for that. I want to stay with you, Mr. Scherrbaum.

1 You had talked about I guess raw material prices going
2 up, you know, faster than the sales volume and demand.
3 And you made a reference to 2006.

4 In 2006, there was a real surge in demand.
5 Everything seemed to go up then. And I was wondering,
6 what was causing that? What was the factors behind
7 that? Our data show, you know, that demand did go up
8 in '06, quite sharply, among other factors. And I was
9 just trying to understand what was driving that, and
10 does that give any lessons for today. And if you want
11 to think about it, we can come back to it post-
12 hearing. That would be fine.

13 MR. KOPF: I think - this is Rob Kopf, U.S.
14 Steel. One thing that was talked about earlier is the
15 fact that the Chinese steel-making community has
16 increased their capacity so significantly in recent
17 years. And 2006 was one of those periods where the
18 Chinese continued to expand at a very, very
19 significant rate. And they consumed an awful lot of
20 raw materials from around the world, which drove up
21 the raw material, the globally traded raw material
22 prices of things like iron ore, and the coke and coal,
23 and coke. So that I think had a significant impact on
24 the input cost side of things.

25 VICE CHAIRMAN WILLIAMSON: Okay. Mr.

1 Vaughn.

2 MR. VAUGHN: I'll defer to Mr. Surma.

3 VICE CHAIRMAN WILLIAMSON: Okay. Sorry. I
4 mean, I see all these hands up here, and I don't know
5 who is doing what. Mr. Surma.

6 MR. SURMA: Thank you, Mr. Vice Chairman. I
7 think if your question is really on what was causing
8 the steel demand step-up that occurred during the '06,
9 '07, and early part of 2008.

10 It was just, at least from our point of
11 view, economic activity in this country that was
12 running at a pretty high level. Unsustainable, as it
13 turned out; a lot of it was fed by construction. We
14 had unsustainably high construction rates, new housing
15 starts, all of which then of course led to the
16 disastrous collapse we had.

17 So I think some of it was just over-
18 exuberance in the consumer durables and real estate
19 sectors that came to a pretty quick halt. But I think
20 it was overall economic activity, and I'm not sure we
21 can pinpoint one or two things.

22 It did drive along with what happened in the
23 rest of the world very high input prices, as you also
24 heard about. Then when that music stopped, it was a
25 very difficult place to be. And in the late part of

1 2008, it stopped, and we ended up with 10,000 people
2 on layoff and only a few of our plants operating. And
3 it was a very, very dark period.

4 VICE CHAIRMAN WILLIAMSON: Hopefully we're
5 not going to repeat that scenario. But maybe post-
6 hearing, it may be interesting to find out what extent
7 is activity in China now, in terms of raw materials
8 and things, how is that affecting the situation here.

9 MR. SURMA: We can certainly do that. In
10 fact, just to tack that back on, Mr. Vice Chairman, to
11 the last discussion, there was, when the tragedy
12 occurred in Japan, there was some thought that maybe
13 the global raw materials markets would also move off a
14 bit. After just a brief period, they are sort of back
15 on track again, and the iron ore forward markets in
16 China are back up to a fairly high level, not quite
17 the record but very close to it. Seaborne coke and
18 coal also up to very, very high levels again.

19 So the raw materials markets have made a
20 judgment that steel production in Japan will probably
21 be maintained at a fairly high level.

22 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
23 And my time has expired.

24 CHAIRPERSON OKUN: Commissioner Lane?

25 COMMISSIONER LANE: Thank you. Good morning

1 to all of you and thank you for coming.

2 Mr. Rosenthal, I'm going to start with you.

3 In your brief, you argue that in addition to the
4 Commission's traditional constructive fair market
5 value ("FMV") methodology for internal consumption,
6 the Commission should also evaluate the condition of
7 the domestic industry using the valuation methodology
8 based on cost plus allocated gross profit, as
9 Commissioner Pinkert and I so brilliantly decided in
10 the 2007 Hot-Rolled Steel Sunset Reviews. Do other
11 members of the morning panel agree with ArcelorMittal?
12 If so, why or why not.

13 MR. ROSENTHAL: Why I guess you really don't
14 argue addressing ArcelorMittal is good. But I just --
15 I'll let the others, lawyers and others answer. But I
16 just want to know looking at it from your perspective,
17 do all the lawyers with their hands up look like carp
18 in a pond? So it's very actually good to have a
19 question directed individually. But I'll let my
20 colleagues answer that one.

21 COMMISSIONER LANE: Okay.

22 MR. LIGHTHIZER: Commissioner, this is an
23 issue also that we've argued about from -- argued
24 about is not the right word -- that we've tried to
25 persuade you from time to time, and we noticed at the

1 last -- in the last opinion, you and Commissioner
2 Pinkert appeared to be more persuaded than others
3 about the importance of how we allocate our profit as
4 we go down the system. As a result, the staff has
5 prepared Exhibit E which gives alternate numbers for
6 profit.

7 I actually because I thought we might come
8 up with this, I've actually prepared a sheet that if
9 we have one minute of your time, I would take you
10 through because my hope is that I'm going to be able
11 to persuade just four more of you and then I'm not
12 going to worry about it until there's a change in the
13 Commission.

14 So what I have prepared here --

15 COMMISSIONER LANE: Mr. Lighthizer, I'm not
16 sure that your mike is on.

17 MR. LIGHTHIZER: Oh, it's on, but for some
18 reason I don't - I've never been accused of being
19 quiet before. But I'll try to speak closer to it.

20 COMMISSIONER LANE: Okay, thank you.

21 MR. LIGHTHIZER: I apologize for that. What
22 I have done while you're waiting to see this is just
23 prepare a hypothetical case to kind of make the
24 argument that it's important to actually look at how
25 much profit is really coming into the hot-rolled

1 industry, okay. Now let me take you through this -- I
2 plan to do it fairly quickly, and hopefully it will
3 illuminate the people who don't completely agree with
4 us now and won't dissuade those of you who already do
5 to some extent buy it. So that's my objective.

6 So I have taken here, if you look, I'm
7 suggesting at the top in the blue boxes we have an
8 industry that has three tons of steel.

9 COMMISSIONER LANE: Mr. Lighthizer, let me
10 just stop you before you proceed. Do the respondents
11 have a copy of what we're getting into?

12 MR. LIGHTHIZER: No, we're giving them a
13 copy right now. We have plenty of copies for them.

14 COMMISSIONER LANE: Okay.

15 MR. LIGHTHIZER: And we did do that for that
16 reason. We are - why don't you just grab one and give
17 it to Mark or whoever just so he gets right away. I'm
18 assuming an industry with three tons of steel, all
19 right. It all starts as hot-rolled steel, and it
20 moves. One ton becomes, it's sold as hot-rolled, one
21 becomes cold-rolled and one becomes corrosion
22 resistant. And in my hypothetical, I'm saying that on
23 the cold-rolled, we make \$70 a profit. On the
24 corrosion, we make \$50. But in the market for hot-
25 rolled steel, it's \$100 profit, all right. That's my

1 hypothetical. This explains, I think, why the numbers
2 are so much lower in Exhibit E than they are in the
3 other, okay. Now if you look at my hypothetical and
4 you go across the top to the right, you will see that
5 the actual amount of profit to the entire enterprise
6 is \$220. So, okay, \$220 is the actual amount of
7 profit of the entire enterprise. If you go down to
8 Exhibit 1, you will see what you have in your regular
9 list, and that would be \$300. So method one says in
10 my hypothetical that you've made \$300 in hot-rolled
11 when in my hypothetical you've only made \$220 in the
12 whole enterprise including the cold-rolled and the
13 corrosion resistant.

14 Method two is something like -- not
15 precisely, but something like what is in Exhibit E,
16 and that is to say the profit down the stream, if you
17 will, is a combination of cost plus an allocated share
18 of the profit that we end up and staff does a good job
19 of how they allocate all of this. We have no
20 complaints about any of that, and it's done in a
21 logical way. But if you see the allocation method,
22 then you would say the hot-rolled industry had \$160 in
23 profit. So you can see this is what we're worrying
24 about. The whole enterprise has \$220 in reality in my
25 hypothetical. Method one says hot-rolled alone made

1 \$300. And I would suggest to you that step two which
2 is in your Exhibit E is -- none of this is totally
3 accurate and completely accurate, but is a more
4 accurate way to think about how much money this
5 particular industry of hot-rolled steel industry made.
6 And I say all this because I think that as you go
7 through and analyze and hear these billions and
8 billions and billions of dollars that the other side
9 talks about, you have to realize that a lot of those
10 billions of dollars do not exist in the hot-rolled
11 industry. They just don't exist. They're not real
12 money. And if you want to get an idea what the real
13 money is, I think you have to go to Exhibit E which
14 has an allocation of the amount of profit based on
15 reasonable approach that the staff developed with us,
16 I guess, together after the last case.

17 So I hope this is somewhat illuminating. I
18 really think it's an important point when you try to
19 see how well we are not to have a system which gives
20 the impression that we have billions of dollars which
21 in fact Mr. Sherman never had and his colleagues never
22 had.

23 COMMISSIONER LANE: Thank you, Mr.
24 Lighthizer, and I appreciate the exhibit. Now we have
25 ArcelorMittal agreeing, and we have U.S. Steel. Mr.

1 Schagrin, what do you have to say about this
2 methodology?

3 MR. SCHAGRIN: Commissioner Lane, I'm going
4 to keep my answer extremely short. To paraphrase the
5 Olympia Dukakis character in When Harry Met Sally,
6 I'll have whatever Bob's having.

7 COMMISSIONER LANE: Okay, that sounds good.
8 Let's see, does anybody else --

9 MR. PRICE: Alan Price on behalf of Nucor.
10 I agree with Bob and Roger in this. When I tried to
11 explain to Mr. DiMicco last week what we calculated
12 his profits as, he scratched his head and said,
13 "That's not where my profits are in this division."
14 There are a couple of elements of issues here.
15 There's this one. There's actually an additional one
16 in which we have not fully briefed and developed in
17 the case because at the end of the day the financial
18 performance is so poor and anemic right now, the
19 industry's vulnerable really regardless of which
20 methodology you're using. But, for example, Nucor
21 several years ago bought DJJ. DJJ is a scrap
22 processor, buys scrap and then sells scrap to Nucor.
23 It sells scrap to third parties, charges Nucor market
24 price. It's run as an independent business. Under
25 your -- under the ITC's -- even under the ITC's

1 standard methodology, DJJ's profits which prior to the
2 purchase stayed on DJJ's books were somehow or other
3 assumed into the profitability for Nucor on hot-
4 rolled. That's following your standard instructions
5 there. And so the data you have for a variety of
6 reasons even under the standard approach really
7 overstates the industry's profits here. On hot-
8 rolled, the industry is really doing substantially
9 worse than I think any of your data sets actually
10 show.

11 COMMISSIONER LANE: Okay, in this particular
12 case, does the use of -- does it matter which
13 methodology is used, or is the conclusion still the
14 same? And does it make any difference as to our
15 analysis of vulnerability?

16 MR. LIGHTHIZER: I think it makes some
17 difference in your analysis. But the fact is that, as
18 Alan said, the numbers are so strong in this case with
19 either methodology that I think the conclusion is
20 clear and it's exactly the same that we in fact are
21 vulnerable.

22 I think for a variety of reasons I'd like
23 the Commission to think about it -- think about both
24 ways. But the fact of the matter is that the staff's
25 primary data show shrinking profits, losses, shrinking

1 market. It shows all the kinds of trends that we're
2 talking about here. They just have a little bit of
3 phantom profit thrown in. That's my only point. So
4 but I think you get the exact conclusion using either
5 data set.

6 COMMISSIONER LANE: Okay, thank you. Madam
7 Chair, I'm almost out of time.

8 CHAIRPERSON OKUN: Commissioner Pearson.

9 COMMISSIONER PEARSON: Thank you, Madam
10 Chairman. It's a great pleasure to have all of you
11 here. I was looking at the panel earlier as they were
12 being seated, and I was thinking about how many of
13 these gentlemen and ladies have I had a chance to
14 visit one of their facilities, and it's been quite a
15 few. Not all of you, but over the past several years
16 you've helped give me an education in steel production
17 that is far beyond what I ever would have gotten had I
18 gone into any other career other than metallurgical
19 engineering. So thank you.

20 There's been some discussion about the
21 consumption of hot-rolled steel in the United States
22 trending downward over time. Could you discuss that a
23 bit more? Is that actually happening? I mean we can
24 see it here in our data. And yet, I don't know how to
25 interpret the relatively higher years of consumption

1 we see at some points and then we see some lower years
2 and then we see some higher years again. Is there
3 something going on structurally that is taking
4 consumption down over time?

5 MR. SURMA: Commissioner Pearson, I'm John
6 Surma with U.S. Steel. I'll make a couple of general
7 comments. I'm sure my distinguished colleagues will
8 make their own.

9 But from the 2004, 2005, 2006 period, the
10 U.S. economy was relatively strong at that time, and I
11 think as the Vice Chair observed, consumption was
12 pretty good. And with the recession that occurred in
13 late 2008 and the unbelievable for the steel market
14 depression which occurred in 2009, to put it into per
15 capita consumption, per capita consumption that was
16 implied by the hot-rolled consumption that took place
17 in 2009 equated the U.S. consumption level each of you
18 consuming hot-rolled steel in your daily lives to
19 about the same as what it was in Romania. Romania's
20 not a bad place. We know it. We've been there. We
21 have customers there, but it's not the U.S. And the
22 level of economic activity and standard of living is
23 much different.

24 So we were an unbelievably depressed level
25 that was through just lower consumption. All of you

1 stopped buying things. We also had inventories taken
2 down throughout the system. And it has been very,
3 very slow to return, and we are still way, way behind,
4 years behind, the kind of levels that we had back in
5 2004, 2005, 2006 and 2007 which were decent years, not
6 great but decent.

7 My sense is it will take quite some time to
8 get there. In the meantime, we're now confronted with
9 the costs which are extremely higher than they were
10 back in that period because of the strong consumption
11 of all steel making materials mostly in Asia and other
12 parts of the developing world. So we have low volume,
13 higher cost and both very, very slow to change. And
14 with prices moving just barely to where we could begin
15 to think about making a profit for our company the
16 first time since the third quarter of 2008, just
17 barely think about making a profit, and our colleagues
18 on the other side in their benevolence again say that
19 once you make one dollar on one ton, all is forgotten.
20 It's not forgotten by us. Consumption is down because
21 the country's economy slowed to a snail's pace, and we
22 ended up with 10,000 people on layoff for most of that
23 time. It was a very, very difficult time for us.
24 Thank you.

25 COMMISSIONER PEARSON: Yes, Mr. Conway.

1 MR. CONWAY: We have this odd place we sit.
2 We have a lot of auto parts within the union, as you
3 guys know. We have tires and of course steel that
4 goes into it. So it's something that we watch
5 closely. I was pretty alarmed. We had this decade or
6 more of 17 million auto units. And it's our
7 understanding as has been explained to us by a lot of
8 good auto experts that three and a half, four million
9 of those units were purchased on home equity line of
10 credit loans from homes. And so when this housing
11 market collapsed, so dries up that credit and so dries
12 up nearly permanently three and a half, four million
13 units. And so as we're returning to 13 and people are
14 beginning to cheer about that, it's doubtful how far
15 we can look to see if we will ever get back to 17
16 because the source of people buying those automobiles
17 on the home equity line of credit they had has dried
18 up as well.

19 So we see it pretty long time, pretty
20 structurally different in the hot-rolled market as
21 well as the others.

22 COMMISSIONER PEARSON: Mr. Busse.

23 MR. BUSSE: Yes, Commissioner, I think a
24 direct answer to your question, is there more and more
25 steels that all originate in a hot-rolled format being

1 value added and going into end use markets that are a
2 little bit different than what they historically went
3 into. Even hot-rolled itself is being coated today to
4 give it extended life. But certainly when you
5 consider the construction market and certainly when
6 you consider the oil patch and drilling for oil and
7 drilling for gas, there are fewer hot-rolled products
8 being deployed today than there would have been 20
9 years ago.

10 COMMISSIONER PEARSON: Okay. In the back
11 there.

12 MR. PLATZ: Roy Platz from ArcelorMittal.
13 When you look at the recession that we just went
14 through, officially it started in December of 2007 and
15 officially ended in June of 2009. And the U.S.
16 economy contracted about 4.4 percent over that time
17 period, so significant contraction. But if you look
18 at manufacturing, manufacturing itself dropped by
19 about 17 percent - manufacturing output. And if you
20 look at the portion of manufacturing that's steel
21 intensive, it dropped by an even bigger share. So we
22 had auto production drop by about 49 percent, durable
23 goods fell by 23 percent. I can't remember the
24 numbers any more, but railroad car production, all of
25 the sectors of fabricating metal products all fell by

1 significantly more than manufacturing as a whole. So
2 our customer base was disproportionately hit.
3 Actually manufacturing was disproportionately hit and
4 then our portion of that was disproportionately hit
5 even beyond where we're hit on manufacturing.

6 COMMISSIONER PEARSON: And could you please
7 - are you talking about just the recent recession now?

8 MR. PLATZ: I'm talking December of 2007 to
9 June of 2009. So you know, we've had some recovery
10 from that standpoint. You know, coming back to Tom's
11 comment, we had -- I remember in 2007 we had
12 discussions when we were talking about the automotive
13 industry what a recession would look like in auto.
14 And at that time, we said a significant recession we
15 would see auto sales in the United States at 14.5
16 million units. So far this year, the first three
17 months of this year we're selling at a rate, annual
18 rate of 13 million and that's where we think we're
19 going to end the year.

20 So, you know, we're hoping some day to climb
21 back to what we considered recessionary auto sales.
22 So it's going to be a long climb back, I think, as has
23 been described earlier.

24 COMMISSIONER PEARSON: Okay. Taking a
25 somewhat longer view and looking beyond just the

1 recent recession, in Table 1-1, we showed the trends
2 over time going back to 1996, and we see a number of
3 years in which consumption of hot-rolled steel in the
4 United States was in excess of 70 million short tons
5 but most recently 2006. Are we going to see that
6 number up above 70 million tons at some time in the
7 future, or will it never get that high again?

8 MR. SCHAGRIN: Commissioner Pearson, this is
9 Roger Schagrin. You talk about structural issues.
10 One major structural issue is the massive trade
11 deficit we have with China in steel-containing goods.
12 While China has a steel industry of 600 million tons,
13 the Chinese are a communist planned economy. They do
14 not want us in semi-finished steel around the world.
15 They want to send steel-containing goods. I think we
16 have about a 10-12 million ton deficit in steel-
17 containing goods with China.

18 So until they let their currency flow, until
19 our president and our congress decide this is actually
20 an important issue, that's a structural problem. So I
21 think a lot of forecasters don't see hot-rolled
22 consumption getting back to over 70 million tons or
23 total U.S. steel consumption getting back to 135
24 million tons even though we have a growing population.
25 We're not consuming steel products produced in the

1 U.S.

2 The other thing besides just the number of
3 units involved in auto because auto's so important to
4 the hot-rolled industry, you can ask this of the Ford
5 representative this afternoon. Even with 13 million
6 units, everything's getting light weighted because gas
7 is four dollars a gallon instead of two dollars. And
8 so ask Ford as their units of production are coming
9 back, the increase is clearly in the Ford Focus which
10 I drove the other day as a rental car. It's a tiny
11 little lightweight car that gets like 35, 40 miles to
12 the gallon. It's not in what Ford used to sell very
13 profitably these giant SUVs and almost, you know,
14 small trucks. And so there's just a huge amount of
15 weight difference between the units being sold by the
16 auto companies today and what had been sold five or
17 six years ago, and a lot of that has to be related to
18 gas. And unless you think the price of oil is going
19 to fall much from \$105, it's hard to believe that
20 structurally that change won't continue and we'll see
21 more lightweighting of vehicles which means less steel
22 consumption for the U.S. steel industry.

23 COMMISSIONER PEARSON: I've got about ten
24 seconds left on my time, Mr. --

25 MR. SCHERRBAUM: Joe Scherrbaum with U.S.

1 Steel. Just to add, we're looking at a forecast from
2 CRU which is an international global forecasting
3 company who estimates that hot-rolled consumption in
4 the United States will not get back to 2007 levels
5 until the year 2015.

6 COMMISSIONER PEARSON: Okay. For purposes
7 of the post-hearing, Mr. Schagrin and perhaps others,
8 you might want to elaborate on this issue of imports
9 of steel-containing products if that's something --if
10 there's something going on there that we should
11 understand, I'd be glad to understand it. Because you
12 know, we know that the value of manufacturing output
13 in the United States has continued to rise with the
14 exception of the last -- the recent recession. And if
15 there's more manufacturing going on in the United
16 States over time even with fewer people, my thought
17 would be that more steel would get used. So help me
18 understand whatever you can about that. Thank you,
19 Madam Chairman.

20 CHAIRPERSON OKUN: Commissioner Aranoff.

21 COMMISSIONER ARANOFF: Thank you, Madam
22 Chairman. I join my colleagues in welcoming you all
23 here today. Since this might be our last hearing for
24 a while, it's nice to see such a good turnout.

25 I want to follow up on the point that was

1 just being made in the last round of questioning. A
2 number of the witnesses have talked about the fact
3 that the U.S. market for hot-rolled steel is smaller
4 today than it was in earlier periods that the
5 Commission has looked at. And I just wanted to pin
6 you down on to what extent that's a reflection of the
7 recession such that we can hope for improvement at
8 some point in the not too distant future, and to what
9 extent it's a permanent or more long term decrease due
10 to some of these factors that have been mentioned.

11 Mr. Conway mentioned the fact that there's a
12 lot of people who were funding car purchases and
13 waited and it's probably not going to happen any more.
14 And Mr. Schagrin was talking about the gas prices and
15 the effect on the size of cars. And so there's other
16 factors like that which look like more long term that
17 that kind of demand is never coming back. Does anyone
18 want to comment the extent to which the reduction in
19 the size of the market today is these longer term
20 factors versus the shorter term economic factors? All
21 right, in the third row back there.

22 MR. BLUME: Rick Blume, Nucor. My comments
23 regarding the demand of hot-rolled. The longer term
24 factors obviously are the loss of manufacturing jobs
25 and the key element that we all are concerned about

1 from the economy's perspective. So you know, from a
2 longer term perspective, those are the things that
3 concern us.

4 Short term, certainly the economy has had an
5 impact. We look at all of our end user markets. They
6 were all hit very hard over the last few years. And
7 now it's only now we're starting to see some rebound
8 in some of those key markets.

9 So I think the other point that I would add
10 is that certainly the hot-rolled product within steel
11 making and certainly within flat-rolled is a key
12 market. This is a big deal. This is a big part of
13 what we do in the flat-rolled industry. So as we look
14 at demand, it's important that we do things to spur
15 demand, to create jobs. But unfortunately I think we
16 have a ways to go in terms of seeing some of those
17 structural turnarounds that need to occur.

18 Certainly, the economy was getting better,
19 and in the end the challenge that we have is to make
20 sure that this slow recovery that we have is not
21 undercut by removing these orders allowing dumped
22 steel to be a part of what is already a very
23 challenging environment.

24 COMMISSIONER ARANOFF: Okay. Mr. DiMicco.

25 MR. DIMICCO: Yes, I'd like to comment both

1 on your question which ties back into Commissioner
2 Pearson's question as well. It was mentioned that the
3 dollar value of manufacturing has been increasing.
4 The reality is the actual manufacturing volume has
5 been decreasing over the last 30 years for a variety
6 of factors not the least of which is major
7 mercantilistic trading practices of our so-called
8 trading partners who are really competitors.

9 And you're seeing more and more cases being
10 brought about this on auto parts and tires and other
11 things, and there's going to be more coming down the
12 road in the future. But in general the manufacturing
13 sector has been shrinking dramatically over the last
14 20, 30 years, not increasing. It actually sped up in
15 the last ten years.

16 Over 30 million tons a year steel bearing
17 products come into the United States that used to be
18 produced here before. So it's not just the steel in
19 the form of a bar or a sheet product, a hot-rolled
20 product or beams coming in. It's also all of the cars
21 and refrigerators and fabricated products that are
22 coming into the United States and have been
23 increasingly so over the last ten years that has taken
24 away part of the hot-rolled market and the steel
25 market in general. I mean we even see fabricated

1 bridges coming over from Korea and other places. And
2 so that -- there is a general trend in manufacturing
3 downward, not upward. I wish it was upward.

4 You take into the fact of inflation. You
5 take into the fact other factors. The manufacturing
6 segment in this country has been shrinking
7 dramatically. That's one of the reasons why we've
8 lost our middle class.

9 And so that is just another piece of
10 information that I'd like to present to the
11 Commission. Thank you.

12 COMMISSIONER ARANOFF: Thanks. I think I
13 got what I needed out of that. But feel free to add
14 more post-hearing. And I want to turn to another
15 question before I run out of time. Commissioner
16 Pinkert about an hour ago was asking some questions
17 about the U.S. affiliates of subject producers. And I
18 think everyone went through in very sufficient detail
19 responses to the Respondent's argument based on some
20 of the Commission's past decisions involving
21 ArcelorMittal and all the production capacity in
22 subject countries and why this case is different. But
23 there was one other argument that the respondents have
24 raised that I wanted to make sure people had an
25 opportunity to respond to.

1 Rather than arguing that we should revoke
2 the order with respect to a whole country because of
3 one of the producers in that country has a U.S.
4 affiliate, I think what they were arguing in some
5 cases was, well, okay but maybe you don't want to do
6 that because clearly this one producer with a U.S.
7 affiliate doesn't control all or substantially all the
8 production in the subject country. But when you're
9 adding up the capacity that can be considered to be of
10 concern to the U.S. industry when you're looking at
11 how much excess capacity, how much added capacity,
12 subtract out the capacity of that affiliated producer
13 and just look at the other people who are
14 unaffiliated. Does anyone want to respond to that
15 logic?

16 MR. DIMICCO: One legal point and one
17 factual point is I think the Commission would have
18 some difficulties under the legal standards in
19 segmenting out parts of the foreign industry. There's
20 a series of cases before the CIT and one CFC case back
21 in the '80s and early '90s that went to the need for
22 the Commission to look at (a) the U.S. industry as a
23 whole and not, you know, segment and say, well, this
24 person's not really in it or it's separated and there
25 were a number of court cases that, when the statute

1 says look at an industry, you really have to look at
2 the industry as a whole. You have discretion as
3 conditions of competition besides looking at the
4 industry as a whole.

5 And the same thing happened with some court
6 cases. I forget who Bill Silverman brought them on
7 behalf of, but it came to segmenting out certain
8 nondumped sales and everybody wanted to segment things
9 and the court cases said no, you really have to look
10 at all the imports. So we'll do that, address it
11 legally.

12 But on the factual side, just as talking
13 about the health of the industry how do you look at it
14 in response to Commissioner Lane's question, you know,
15 how much does it matter, this industry looks horrible
16 in the last two years any way you look at it.

17 The same applies to the foreign industries.
18 Any way you segment them, they have enough additional
19 capacity that those increased imports from the other
20 producers in Japan, Russia and Brazil are going to
21 cause industry to this very vulnerable industry. So
22 those are important points. We'll address them
23 legally. But I think factually it really doesn't
24 matter in the end because of the extreme vulnerability
25 of this industry and the excess capacity.

1 COMMISSIONER ARANOFF: I appreciate that.
2 I've just got a few seconds left, but Ms. Cannon's
3 been waiting patiently, so I want to give her my last
4 30 seconds.

5 MS. CANNON: Thank you, Commissioner
6 Aranoff. I appreciate that. I just want to point out
7 that in the ArcelorMittal brief when we looked at the
8 capacity, we did aggregate the capacity together
9 basically reflecting the point that Mr. Price made
10 which is that all of that capacity is competing
11 together in the market, and I don't think it should be
12 ignored. I think there are some mill capacity does
13 have to be taken into account because it's all
14 contending for that increased home market demand as is
15 the new capacity coming online from the other
16 producers.

17 Whether ArcelorMittal specifically exports
18 is not only an issue, it's a question of how much is
19 the total capacity is going to be forced out given the
20 excess total capacity. So I do think it's important
21 that you consider that with respect to Brazil.

22 The other point I just wanted to make
23 briefly is that, again, we reiterate the point Mr.
24 Rosenthal made was it is only ArcelorMittal that is on
25 record showing that it's going to have any policy of

1 controlling imports into the United States. Severstal
2 is not on record nor is any other producer, and the
3 facts show just the opposite for Severstal. So I
4 don't think you even get there for those companies.
5 Thank you.

6 COMMISSIONER ARANOFF: Thank you all for
7 those answers. Thank you, Madam Chairman.

8 CHAIRPERSON OKUN: Commissioner Pinkert.

9 COMMISSIONER PINKERT: Mr. Rosenthal, do you
10 want to complete that answer?

11 MR. ROSENTHAL: Thank you. I want to
12 continue to agree with my partner. The one last thing
13 I would say on that is that because the ArcelorMittal
14 products in Brazil won't be coming to the U.S., all it
15 does is put more pressure on the rest of Brazilian
16 producers to put their products some place else if
17 they can't sell it in Brazil.

18 So I think it has exactly the opposite
19 effect of what the respondents are arguing. Not only
20 should you not deduct the ArcelorMittal capacity from
21 the total capacity. You should be especially
22 concerned about the additional capacity coming on
23 screen in Brazil and elsewhere and wonder what's going
24 to happen to that.

25 COMMISSIONER PINKERT: Thank you. Now Mr.

1 Conway, you've mentioned the acquisition by RG Steel
2 of Warren, Wheeling in Sparrows Point. Do you have
3 any information about whether any of those facilities
4 will operate as integrated mills?

5 MR. CONWAY: Well, we're trying to bring up
6 the Sparrows Point operation right now and get raw
7 material in front of Sparrows Point. So you know,
8 that L furnace will come back up, and we'll get
9 Maryland running. I'm not familiar in that detail
10 about the Wheeling Pitt operations and how quickly we
11 can get them up. Warren is currently running and has
12 been running. So we will be bringing that back on to
13 those three plants, and hopefully it will open as
14 quickly as we can. And from our viewpoint, you know,
15 if there is capacity here to be made here, why we
16 shouldn't be bringing up those U.S. plants to do it as
17 opposed to waiting for Russian, Brazilian and Japanese
18 steel to come in and get that market makes perfect
19 sense to us.

20 COMMISSIONER PINKERT: Thank you. Now
21 turning to the other members of the panel, can the
22 domestic industry protect itself from increases in raw
23 material costs by contract mechanisms and captive
24 supply?

25 MR. SURMA: I'll start, Commissioner. John

1 Surma from U.S. Steel. Protect, perhaps. I think we
2 can try to manage. I can only speak for our company,
3 of course. We try to manage our affairs from an input
4 cost standpoint.

5 We do happen to own some natural resource in
6 the iron ore operations. We can supply ourselves
7 internally to a point. We're at the point now where
8 we're going past that as we follow the market up. And
9 so we're in the market for iron ore. We're in the
10 market for coal. We're in the market for traded coke
11 because we can't produce all the coke we need. We're
12 in the market for scrap less than my electric furnace
13 colleagues but for quite a bit along with fair -- oil
14 and things we need. We can protect ourselves by
15 trying to purchase wisely. But ultimately we're
16 market takers. We're going to have to pay whatever
17 the market is and those that own it have it and those
18 that don't pay for it. And ultimately that's how it
19 works out.

20 We could protect ourselves, I guess, in
21 theory by investing further in upstream activities.
22 Our particular company, because we have a large
23 resource base, is looking at expanding our armor
24 operations. That's public knowledge, but very lengthy
25 permitting, very large expenditure. And for us to be

1 able to make an investment of hundreds of millions of
2 dollars, I think, as Mr. Busse noted, hundreds of
3 millions of dollars in something like that, we need to
4 have some confidence for the future. And knowing that
5 we've got this sword hanging over our head that it may
6 be that imports coming in at virtually any price to
7 take our market makes us less than confident we can
8 make that kind of investment here in North America.

9 So we can protect ourselves. But it's
10 something that's a big investment. It takes a long
11 period of time, and we have to have long visibility
12 and we have to be comfortable and this really results
13 from your good work that we're going to have a fairly
14 traded market. In a fairly traded market, we think we
15 can do okay.

16 But it's not easy to have the resources
17 today. And if you have a resource today that you want
18 to develop and you want to - it means you have to buy
19 a resource whether it's carbon or ferrous, chances are
20 anywhere in the world if you get there, the Chinese
21 were already there and it's very expensive.

22 MR. DIMICCO: Speaking out on the scrap
23 side, I know some folks may think that because we own
24 a company called David J. Joseph that brokers a lot of
25 scrap and processes through some of our operations

1 about four to five million tons of scrap and we use
2 about in a good year it's 25 plus million tons, that
3 somehow we might have some control over the pricing.
4 The reality is we don't. The market's a 70 million
5 ton market. Twenty-five million tons of it plus or
6 minus a few million is exported out of this country to
7 around the world based upon demand in China and
8 Thailand and Turkey and other places.

9 So the benefit of owning a scrap company do
10 not unfortunately extend to having control over the
11 pricing of the product that you purchase, whether you
12 do it openly in the market or do it through your own
13 in-house source, you're paying market prices. And
14 those market prices over the last decade have been
15 increasingly determined by what happens outside the
16 United States, not what's going on inside the United
17 States.

18 Scrap pricing has gone up extremely rapidly
19 over the last several months, and it's not because our
20 demand has gone up extremely rapidly. It's because
21 demand from overseas has driven scrap prices through the
22 roof.

23 COMMISSIONER PINKERT: Mr. Blume.

24 MR. BLUME: Yes, Rick Blume, Nucor. To
25 illustrate how it is very difficult and not possible

1 to protect ourselves against the volatility on the raw
2 material side, you simply have to look at our contract
3 percentages over the past few years, and we've seen
4 our contracts actually go down.

5 As Mr. DiMicco mentioned, we don't have the
6 ability to have the pricing mechanisms on the sale
7 side to be able to protect ourselves. And even the
8 contracts that we had a few year ago, we had a much
9 higher percentage than we have today. And that's a
10 decision because of the risk that is imposed by the
11 raw material volatility.

12 So, again, it's an illustration of our
13 inability to control that raw material cost. Yeah, the
14 other point that I would add to that, the contracts
15 that we do have in place today really we are taking at
16 risk to allow ourselves to have an appropriate mix.
17 But it certainly is less than what we had a few years
18 ago.

19 COMMISSIONER PINKERT: Mr. Busse.

20 MR. BUSSE: Yes, I'd like to comment. Our
21 situation is not any different than Nucor's. We
22 operate these units as profit centers whether it's our
23 ore interests or whether it's scrap interests. I
24 suspect it appears any advantage and we buy it market.
25 As Dan said, we're not in a position to determine,

1 we're not big enough to make the market. So you're at
2 the mercy of the market from a supply and demand
3 perspective.

4 But if there's any advantage that you have,
5 it would be supply. There could be times when there
6 are several raw material shortages, and you would have
7 a more assured supply, if you will. I couldn't help
8 but come back to the argument of whether or not
9 profitability of the scrap operations should be
10 included in the profitability of high road. And it's
11 an absurd argument. I mean it doesn't matter whether
12 we buy scrap from ourselves or we buy it from the
13 fellow down the street. The cost is just the cost,
14 and it's not part of the profit that we have in making
15 hot-rolled steel.

16 COMMISSIONER PINKERT: Dan Mull,
17 ArcelorMittal.

18 MR. MULL: Our position on raw materials as
19 a global corporation is that we are actively
20 soliciting and pursuing new raw materials, and we're
21 trying to protect our position globally. One of the
22 challenges in that is that we also are competing not
23 only with these fellows every day on a very tough
24 business, but we're competing with our sister
25 companies with a capital that's constrained within the

1 industry in order to get our position. And just
2 repair and maintenance on our existing steel making
3 facilities is our first priority in the United States
4 before we're able to capture more raw materials.

5 So, you know, running at the limited levels
6 that we've been running, it's a challenge just to make
7 sure that we're running our operations and the money's
8 going in that direction much more than acquiring
9 additional mining facilities here in the North
10 American sector.

11 COMMISSIONER PINKERT: Mr. Price, I'll let
12 you have the last word on this one, and I have a very
13 quick follow up for this round. So go ahead.

14 MR. PRICE: So not only have you heard all
15 these answers on why there's no protection here, on
16 the flip side of this you have the Russians who have a
17 massive substantial 15 percent export tax on their
18 scrap to give their own industry a cost advantage to
19 lower their scrap input cost so that they can undercut
20 the global market.

21 So it's really a terrible situation. The
22 Russians aren't the only ones doing this. But I'll
23 just sit down quickly for this one.

24 COMMISSIONER PINKERT: Thank you. My follow
25 up is for Mr. DiMicco, and it concerns the situation

1 where the industry might be operating at less than
2 full capacity. Do the mini-mills have a cost
3 advantage in that situation in holding their costs
4 more in line with their production at less than full
5 capacity.

6 MR. DIMICCO: That's probably a mixed bag.
7 We don't lay off our teammates. So we incur costs to
8 keep our teammates employed even when they're not
9 working anywhere near full work weeks. So that's an
10 added burden that three of the folks here have when
11 they don't lay off their teammates like Gallatin or
12 SDI or Nucor do not.

13 In times past, we used to have the benefit
14 of scrap prices that when times were slow, scrap
15 prices would go down. And so our cost structure would
16 be significantly less to produce any given ton of
17 steel regardless of what the demand was. And that
18 pretty much existed up through about 2004.

19 What was taking place of a different dynamic
20 was all the capacity had been added around the world
21 in China and Turkey and other places steel making
22 capacity, some of it electric furnace but most of it
23 integrated. They still use scrap. We found that
24 scrap exports and if you don't have that data, we can
25 provide it to you, the scrap exported to the United

1 States grew significantly to the point where it's been
2 bouncing around 25 million tons of a 70 million ton
3 market in the United States for scrap supply.

4 So that opportunity that we had in the past
5 is significantly less and virtually non-existent
6 because that overseas demand buffers the drop in
7 demand that would have been experienced in the local
8 market place by increasing the demand from overseas.

9 So the demand stays much more steady, in fact can even
10 be greater and hence results in some of the scrap
11 prices being driven back up to \$400 and \$500 plus a
12 ton when going back 30 years, scrap would be \$100 a
13 ton, it might get up to \$150 and it would go down to
14 \$70, okay. Now that overseas demand has just changed
15 the entire dynamic.

16 COMMISSIONER PINKERT: Thank you. I'm going
17 to have to stop you there, and I'll come back to the
18 issue. Thank you, Madam Chairman.

19 CHAIRPERSON OKUN: Thank you. And while I
20 usually get to hear the answers when I'm and may
21 answer them again. So if you answered this question in
22 response to Commissioner Pinkert, just let me know that
23 and I'll go back and look at the transcript.

24 But one of the arguments made by respondents
25 is that the evidence on the record that U.S. producers

1 have been able to implement a series of price
2 increases taking into account we understand where the
3 raw materials have gone. But the fact that they've
4 actually been able to have those stick in a market in
5 which demand has not been increasing is an indication
6 of pricing discipline that we did not see during the
7 original investigation.

8 Have you had a chance to respond to that
9 question, producers?

10 MR. DIMICCO: Well, this is just one part of
11 it.

12 CHAIRPERSON OKUN: Okay.

13 MR. DIMICCO: When you say that didn't
14 exist, the discipline that didn't exist during the
15 original 1998 filing period, I don't think that
16 there's any difference in pricing discipline back then
17 or today. The pricing situation at that time was being
18 dictated by the flood of imports into the United
19 States and the massive over supply was being created
20 even in a good market here that caused steel prices to
21 fall dramatically. And hence, we came here to file a
22 case and were fortunate enough to win it. So -

23 CHAIRPERSON OKUN: Right. But what they're
24 arguing is that we see a different pattern here where
25 you are able to pass through price increases,

1 recognizing that it's being driven by raw material
2 prices because of discipline by the producers in a
3 more consolidated industry.

4 MR. DIMICCO: It's not driven by the
5 producers. That's complete BS and totally
6 inappropriate. The discipline that's being forced on
7 the producers, if there is a discipline, is because
8 everybody's raw material prices has gone through the
9 roof. That's not just an issue here in the United
10 States. It's an issue globally.

11 And you know, so in order if we're losing
12 money, we're running at reduced rates, the industry as
13 a whole doesn't say anything about, well, we got to do
14 this. Individual companies make decisions and say
15 we've got to try and get our raw material costs back.
16 Then you hope and pray everybody else decides that
17 they've got the same problem.

18 And you know, because we've been able to do
19 that over a period of few months doesn't mean that
20 that's going to maintain itself by any means. In
21 fact, we're already seeing some situations where that
22 is not the case in products other than hot band and
23 also in hot band. So there is no magical difference in
24 pricing discipline. That's complete hogwash.

25 CHAIRPERSON OKUN: Mr. Mull.

1 MR. MULL: I think the industry's results
2 Mr. Sherman talked about, their losses, U.S.
3 operations without revealing anything we will reveal
4 in the brief. But similar types of results and
5 pricing in the fourth quarter of last year would have
6 shown almost anything but some kind of a discipline in
7 the market place. So -

8 CHAIRPERSON OKUN: Mr. Busse.

9 MR. BUSSE: I think in the early part of
10 2009 a lot of what you saw in the recovery was really
11 restocking and probably not a lot of excitement about
12 real demand. And I think what you're seeing or,
13 excuse me, in early 2010, not 2009 was restocking and
14 not a lot about demand. What you're seeing in early
15 2011 has a much larger demand component to it.

16 CHAIRPERSON OKUN: Mr. Surma.

17 MR. SURMA: Just to add, Madam Chair. I
18 agree that any assertion by the respondents about some
19 discipline which implies coordinated activity I find
20 totally offensive and inappropriate in this
21 conversation or in any other. I can only speak for
22 our company, and that is that as our costs have gone
23 up inexorably just to give you an example,
24 metallurgical coal, we used to own metallurgical coal
25 mines years ago. And when we sold them in 2003 or

1 2004, we were selling coal for about \$50 a ton, and
2 we're buy coal now for \$200 and some dollars a ton.
3 So the cost pressures are real. And despite what the
4 other side may allege, we don't think that we are
5 necessarily -- have been condemned to lose money for
6 the rest of time.

7 So we believe that getting our prices up
8 where it restores our margins and covers our costs is
9 entirely appropriate. We intend to do that. That
10 will be decided, of course, in the law of supply and
11 demand. And for the moment at least, the laws of
12 supply and demand have allowed us to move our prices -
13 our prices, that's all I can speak for, to a point
14 where we're just beginning to think about making
15 money. And we think we're not necessarily destined to
16 always lose money. We'd like to make some for a
17 while.

18 CHAIRPERSON OKUN: Yes, in the back row.

19 MR. BLUME: Rick Blume, Nucor. If you look
20 at any industry index with respect to pricing, you'll
21 see that in about the November time frame was the time
22 at which the market price started to move and change
23 in hot roll. But it's certainly the pricing that had
24 fallen to unsustainable levels, and many people forget
25 that fact that pricing had gotten to a point that it

1 was just not sustainable.

2 So not only did you have a push, a
3 considerable push from scrap and raw material during
4 that time period that changed the trajectory of that
5 slope, but you also were coming off a very low level
6 pricing that just doesn't make economic sense.

7 So to the point about some kind of
8 discipline, I would say those facts speak against
9 that.

10 MR. ROSENTHAL: Chairman Okun, the one
11 important discipline they don't really like to talk
12 about is the discipline of the dumping order. That's
13 the most important thing we should be talking about
14 today because, absent that, the companies in this room
15 will be unable to cover the increased raw material
16 costs. That is what we really should be focusing on.

17 And interestingly enough, they really don't
18 talk very much about what would happen absent the
19 order. At least they don't talk very convincingly
20 about that. Can any one of them claim that if the
21 order were not here that the ability to cover the
22 rising costs would still be there? I don't think so.

23 CHAIRPERSON OKUN: Yes, Mr. Vaughn.

24 MR. VAUGHN: Yes, Chairman Okun, I just
25 wanted to make sort of a -- cause this sort of runs

1 through their brief in several points where they make
2 these comparisons and they say, well, you know, let's
3 compare '10 to 2001. And if you're doing better than
4 you were in 2001, then you're not vulnerable. And I
5 just think as a legal matter, I mean that's just sort
6 of a ludicrous argument.

7 I mean the crisis that hits a domestic steel
8 industry in the 2000, 2001, 2002 period is honestly
9 one of the worse crises in history. You guys found in
10 the Section 201 case that it was serious injury. So
11 the idea that we have to sort of be at that level of,
12 you know, injury and losses in order to even be
13 considered vulnerable to material injury going forward
14 is just a baseless argument and one to which the
15 Commission should give real disregard.

16 CHAIRPERSON OKUN: Okay, thanks for all
17 those responses. Let me return to a question I had
18 some responses to and there were some hands up. So I
19 wanted to go back to it, and that is whether what
20 Japanese producers describe in their brief as sticky
21 trade patterns that are not likely to change exist. I
22 know for post-hearing, if counsel can look at the
23 specific information provided by the Japanese
24 producers with respect to orders and joint ventures
25 and other supply that they say is committed in the

1 reasonable foreseeable future, I'd appreciate that.
2 But let me also just ask more generally. We started
3 talking about Japan. I think Mr. DiMicco had talked
4 about Japan. With respect to Brazil, you've addressed
5 some of their arguments. But I would like someone to
6 comment on both the size of the home market, the
7 growth of the home market and whether the fact that
8 Mercosur exists is another reason why they would be
9 unlikely to return to here in terms of having
10 incentives to return to this market in large
11 quantities. Mr. Hecht.

12 MR. HECHT: Thank you, Chairman. Yeah, and
13 on that question going back to what you asked earlier
14 about Asia, I guess one of the frustrations we have
15 looking at their briefs is that a lot of anecdotal,
16 you know, there's some demand growth here, maybe we
17 have a JV there. There's no sort of attempt to sort
18 of look at how does that net out in terms of what the
19 likely behavior is going forward.

20 You cannot just look at the demand side.
21 You have to look at what's going on with capacity and
22 production in these other markets, and there's a lot
23 of information on that. When you look at Asia, the
24 projections are that from 2010 to 2012 they're adding
25 75 million net tons of new hot rolling capacity.

1 If you look at India and the Middle East,
2 you've got another 20 million net tons. So you ask
3 yourself are net exports, when you net it all out,
4 going to go up or down. And across the board if you
5 look at Brazil, they're going up. If you look at
6 Asia, they're going up. If you look at Russia,
7 they're stable or going up.

8 So even when you take into account all these
9 anecdotal factors of demand or JVs or what not,
10 there's going to be additional pressure from where we
11 are now for new exports, and that is what our concern
12 is, is that a large market with the highest prices in
13 the world right now. And again, once you net out what
14 they're saying about demand, they're still going to
15 have more exports going forward.

16 CHAIRPERSON OKUN: Mr. Price.

17 MR. PRICE: Alan Price, Wiley Rein. I
18 actually want to start by pointing everyone to Exhibit
19 27 in the Nucor brief, and you don't have to look at
20 it right now but after the hearing, please look at
21 page 1. And it puts in line just generally the
22 capacity picture that's changing globally and all the
23 capacity that came on and the output which isn't
24 keeping up with these massive capacities that are
25 coming on at a very macro basis.

1 Now you start going market by market, and
2 you start pulling this apart and a lot of these
3 answers that you've seen in the anecdotes don't really
4 make sense the other side has put together. And I
5 think Mr. Hecht hit some of the specifics on hot roll.
6 But just to give you an idea, Brazil shifted very
7 heavily into India and Vietnam over the last two
8 years, a local Latin American market, I believe, India
9 and Vietnam.

10 The prices they put the product in there in
11 Vietnam was \$319 in metric tons, \$317 a metric ton
12 into India. That's about 40 percent of their exports.
13 Now the U.S. price, even as bad as it was during this
14 period on metric ton basis, was about \$600. These
15 imports would have come here based upon a price basis
16 without these orders.

17 The idea that these markets abroad are more
18 attractive makes no sense. Japan overnight lost a
19 good chunk of its Korean consumption which it was
20 selling at an average AUV of about \$349 a ton because
21 Hyundai put up a 4 million ton plant. And the idea
22 that the JVs are significant or protective just really
23 don't make a lot of sense. And a lot of the JVs are
24 technology JVs, not substrate JVs. And a lot of these
25 JVs as you start to look at them are not for high end

1 products. They're for pipe and tube even. So the
2 idea that they're making something special is just a
3 bunch -- is just a nice story that's been created here
4 but doesn't hold water.

5 CHAIRPERSON OKUN: Mr. Price, I didn't
6 realize my time has been running and running. So I
7 will have a chance to come back and I want to see the
8 respondents as well. Let me turn to Vice Chairman
9 Williamson.

10 VICE CHAIRMAN WILLIAMSON: Thank you, Madam
11 Chairman. Mr. Conway, several of the producers have
12 said they have a no layoff policy. And yet, if you
13 look at the peer review, employment is down much more
14 over the period of review than domestic production.

15 And so what I'm wondering about, given what
16 many of you have testified today about, you know, the
17 market is not really going to get back above 70
18 million, what does that say about, shall we say, labor
19 or the vulnerability of labor in the steel industry at
20 this time in the near future?

21 MR. CONWAY: Oh, I think there's two broad
22 approaches to a downturn in the industry that are
23 practiced. One is in the unionized industry and I
24 understand Mr. DiMicco's approach to his comments that
25 they don't lay off their teammates. We in fact choose

1 to lay off and have reached accommodations and
2 understandings with U.S. Steel and others where we
3 have a subbenefit that's paid.

4 And so rather than having what at Nucor is a
5 significant portion of your pay on a variable income,
6 you lose that and you have a base sort of pay, we take
7 the base and give that at the plant. And we have
8 experiences from years at the plants where we had
9 employment security insist that we stay in the plant.
10 When you've got a bunch of steelworkers standing
11 around a steel mill, you tend to make steel that you
12 don't need.

13 And so this approach for us works, and it
14 works well and our members understand it. But is this
15 - the other point that Dan was making is the point
16 that we struggle with the most. We see nearly 55,000
17 factories leave or close in America in the last decade
18 and six million manufacturing jobs, each of them with
19 a rippling effect of job of another four jobs
20 supporting it. That fundamental hollowing out is what
21 concerns us more because the steel industry we sell
22 into manufacturing and end users and steel users. So
23 as that slide continues, that concerns us more.

24 And so here we're trying to start up plants
25 in Maryland and plants in West Virginia and bring them

1 on at the end of this recession that we've been
2 through this terrible downturn since the summer of
3 '08. And just when we're about to get some people
4 back to work, we find ourselves here with people who
5 are in a way the respondents are essentially saying to
6 Chairman Okun's last question, well, you've taken that
7 time and you've fixed yourselves and you've
8 consolidated the industry. You gave up your pension.
9 You gave up your health care. Thousands of you lost
10 your jobs. Now we want to come back. Why should we
11 have suffered that and then sit now and allow that to
12 come back proving dumping nations and subsidizing
13 nations.

14 So long term, that's why we're always in
15 front of you guys because we're sort of expecting you
16 guys to help solve this problem for us.

17 VICE CHAIRMAN WILLIAMSON: Okay, so I take
18 it because you'd made reference earlier to the new
19 agreements and I was really trying to understand the
20 impact of them. And I take what you're saying is that
21 these are agreements that reflect the impact of the
22 recession and the market.

23 MR. CONWAY: There's a reality to it. I mean
24 when we're approached by steel company and I got a guy
25 who says to me I've got three days worth of melt on my

1 book, you know, what are you going to do? We're going
2 to find a way to not make a product and continue to
3 exacerbate the market when there's nowhere to sell it.
4 No one ever comes to me and says I've got a pricing
5 problem. I mean I've never had a steel company come
6 to me with this question of discipline, do they talk
7 to each other. I'm surprised I can get them all in
8 the same room to talk to you guys. So there's no
9 question in my mind that this is about there's no
10 order book. And when there's no book, we understand
11 it, you know. You do the best you can to bring down
12 the plant you can in a way that makes as best sense to
13 hang on what business is out there and service it.

14 So we face the market with them whether we
15 like it or not.

16 VICE CHAIRMAN WILLIAMSON: Okay. Mr.
17 Kaplan, I'm sorry, do you want to come back?

18 MR. KAPLAN: Yes, and I think that the CEOs
19 have spoken eloquently about the vulnerability faced
20 by the industry. But getting back to your question
21 here is labor is particularly vulnerable and even more
22 so given the changes you've seen over the period of
23 investigation.

24 There is labor saving investments that
25 occurs. There's rationalization. There has been the

1 way that the union has operated with the unionized
2 firms to try to meet the concerns of keeping
3 profitability up when it's possible. Some of that has
4 fallen on labor as well as capital and the
5 shareholders as well.

6 So I just want to reiterate in answer to
7 your question that labor is particularly vulnerable.
8 It's been demonstrated through the period of
9 investigation. And so both labor and the industry and
10 the production industry are both vulnerable in this
11 investigation.

12 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
13 for that additional comment. Mr. Conway, different
14 people have started to address this. The Severstal
15 plants that you mentioned, and I guess some of them
16 are closed, and I was trying figure out why. Now
17 those are different plants from the ones where you
18 just reached signed agreements, is that correct, or am
19 I getting things mixed here?

20 MR. CONWAY: There are three plants that we
21 reached an agreement, that we have a buyer and
22 investor, who is buying them away from Severstal.
23 They are the three steelworker operations that
24 Severstal had and we are looking to get them, two of
25 them back up and running and back into the market as

1 quickly as we can. Severstal has other operations not
2 covered by our union in the U.S. or are non-unionized.
3 In the case of Mississippi, and the plant is a UAW
4 plant.

5 VICE CHAIRMAN WILLIAMSON: Okay. In regard
6 to the plants that, I guess, Severstal is getting rid
7 of, any explanation of why they want -- why they're
8 doing that?

9 MR. CONWAY: No, you'd have to ask them.

10 VICE CHAIRMAN WILLIAMSON: Okay.

11 MR. CONWAY: We welcome this new
12 opportunity, I'll tell you that.

13 VICE CHAIRMAN WILLIAMSON: Okay.

14 MR. SCHAGRIN: Vice Chairman -

15 VICE CHAIRMAN WILLIAMSON: You're looking
16 forward, I understand.

17 MR. SCHAGRIN: Vice Chairman, this is Roger
18 Schagrin. I would just add - this is just in the
19 press, at the time of the sale of Severstal, when
20 things were good, 2006-2007, they bought those three
21 plants for approximately \$2.2 billion. They shut most
22 of them down when the recession started in 2008 and
23 they just sold them last week for \$1.2 billion. So,
24 they lost roughly 40 percent of their investment over
25 a three-year period. I think they probably figured

1 they might as well get something out of it, rather
2 than keeping, you know, shuttered plants. So -

3 VICE CHAIRMAN WILLIAMSON: Okay.

4 MR. SCHAGRIN: That's a matter of public
5 record as to why they said they sold them.

6 VICE CHAIRMAN WILLIAMSON: Okay. Thanks for
7 that clarification. I notice the industry has asked
8 Commerce -- has requested the termination of the
9 suspension agreement with Russia, because, I guess, of
10 the issue -- and I was wondering if you could give an
11 explanation for why they did that. On your slide 21,
12 you do talk about the effect of the suspension
13 agreement, in terms of the three years for the
14 referenced prices and limited shipment and 404 of
15 those six, you didn't see, you know, the massive
16 shipments. I'm not sure what do you say about 2008
17 and 2010. But was I wondering, why did they get
18 shipped, in light of these things, what's going on
19 with the suspension agreement. Yes, Mr. Lighthizer?

20 MR. LIGHTHIZER: Commissioner, first of all,
21 I would make the point that the suspension agreement
22 has two elements, right -- once again, my microphone
23 again. The suspension agreement has two elements.
24 One is a referenced price and the other is a
25 quantitative amount. First of all, with respect to

1 the quantitative amount, I'd say you'd better be -
2 you'd have to worry about that because the fact of the
3 matter is that they have shipped more than a million
4 tons in a year, indeed, I don't think anyone was on
5 the Commission then, but in November of 1998, they
6 actually - I know that one was on the Commission then
7 - in November of 1998, the Russians actually took the
8 million tons in a month; in one month, they took the
9 million tons. That was really quite startling. So,
10 they have the capability and they have the pattern of
11 shifting back and forth.

12 But the referenced price element of the
13 suspension agreement has had a pretty good effect. I
14 would say not as effect as I would want, but a pretty
15 good effect. It's kept them out of the market about
16 every other year. And in the years when they were in
17 the market, they'd tell you to spike. The only
18 exception to that was the last two times when there
19 was this oddity where their export price - their other
20 export price was actually higher than their price
21 here, in which case, you know, they put a lot of steel
22 into other areas. So, I would say that's number, that
23 the quantitative thing is potential problem. The
24 suspension agreement reference price has been a
25 problem.

1 If you go negative, that means, then, that
2 they can shift unlimited amounts at any price. So, I
3 think it's a huge fact.

4 And the final thing I would say is that even
5 this suspension agreement, which is a non-market
6 economy suspension agreement, is something that, it is
7 our position, at least, should be changed to, if
8 there's going to be a suspension agreement, a market
9 economy suspension agreement, and the reason we say
10 that is that the Department of Commerce has made the
11 decision that they, in fact, are a market economy. I
12 think as a matter of course, that will, in fact,
13 happen. And when that happens, my guess is you will
14 see a constructive suspension agreement that will be
15 even tighter than the one that we have now.

16 So, I think that the combination of market
17 force a couple of times and the suspension agreement
18 overall is the reason that they haven't come here in
19 vast amounts every year. Although in some years, when
20 they could, they did come in very large and very
21 damaging amounts. I hope that answers your question,
22 Commissioner.

23 VICE CHAIRMAN WILLIAMSON: Thank you. I
24 think it does and if there's any additional
25 clarification post-hearing, we appreciate it. My time

1 has expired, so thank you.

2 MR. LIGHTHIZER: Thank you.

3 CHAIRMAN OKUN: Commissioner Lane?

4 COMMISSIONER LANE: Thank you. At page 71
5 of the pre-hearing brief, ArcelorMittal USA argues
6 that "many of the trade and financial indicators from
7 which the Commission evaluates industries, the hot-
8 rolled steel industry is worse off today than when the
9 Commission found injury in the original
10 investigation." Specifically, what indicators are
11 worse than they were during the original investigation
12 and what indicators are better than they were during
13 the original investigation? And Mr. Rosenthal, I'd
14 like for you to go first and then other members of the
15 panel can comment on that.

16 MR. ROSENTHAL: Actually, I think Mr.
17 Lighthizer's opening slide, page 13, are a very good
18 summary of why things are worse. Consumption is
19 worse. Capacity utilization is worse. Production is
20 worse; it's worse. Even the cost of goods sold are
21 worse. And despite the Respondent's argument that
22 things are so much better in 2010, as the spike up to
23 an overall oscillating process, two percent, that's
24 still worse than things were at the time of the
25 original investigation. So, every major factor that

1 this Commission looked at, things are worse for this
2 industry, which makes us very, very vulnerable.

3 COMMISSIONER LANE: Okay. I assume that
4 everybody else from the panel agrees with that, so
5 I'll go to my next question.

6 MR. SCHAGRIN: We agree, Commissioner Lane.
7 The other thing, the only item Mr. Rosenthal didn't
8 mention, employment is also much worse. Of course
9 that went down with the capacity utilization and the
10 decrease in production of shipments, as well.

11 COMMISSIONER LANE: Okay, thank you. The
12 staff report indicates that several producers and
13 importers and purchasers indicated that there were new
14 markets and emerging end uses for hot-rolled steel
15 products, including the energy sector's fuel utility
16 and frames, new automotive parts, and mining
17 expiration industry. Would the panelists please
18 comment on the importance of these new and emerging
19 industries in the United States and the global hot-
20 rolled steel markets? Well, first of all, do you
21 agree with that statement that there are emerging
22 markets that may help with demand?

23 MR. MULL: I think it's - when you describe
24 it as an emerging market, we -

25 COMMISSIONER LANE: In the foreseeable

1 future.

2 MR. MULL: We've been trying to develop
3 those markets and we have placed steel in those
4 markets for some time, including when - I mean, this
5 goes back to in the early 1990s and 2000. So, I mean,
6 as an emerging market, no. Are those markets maybe a
7 little bit better today than some of our other
8 markets? Yes. It's not a big secret that the energy
9 market is a pretty strong market today. So, yes,
10 we're seeing demand from energy markets recovering.
11 But, it's not any great strength or overcoming where
12 we see the softness in the other hot-rolled markets.
13 Construction market, even though it's not all hot
14 roll, is by far the largest consuming market for steel
15 globally and in the United States.

16 So, you certainly have to recognize that a
17 growth we're seeing in some of these other markets is
18 really a recovery in these other markets. It's just
19 that, we're starting to see them better than they were
20 in a very poor period behind the 2009 and 2010.

21 The mining industry, yes, we're seeing
22 pickup from there. And we're hoping - I mean, the
23 infrastructure of this country is falling apart. So,
24 we're hoping that we get the opportunity to be able to
25 sell our steel to railcar manufacturers. We get to

1 build bridges. We get to see additional rail be put
2 in place. And trucks and those types and barges
3 increase their demand for an infrastructure to start
4 to be able to allow commerce to move product around
5 the country. So, we really believe those are
6 opportunities, but we have not seen them come to
7 fruition, at this time.

8 COMMISSIONER LANE: Okay, thank you.

9 MR. BISHOP: Excuse me?

10 COMMISSIONER LANE: Yes, sir.

11 MR. BLUME: Rick Blume, Nucor. Just a
12 couple of follow-on comments to Mr. Mull's comments
13 regarding the new products, the new markets.
14 Certainly, we're seeing some; but, quite frankly,
15 those increased demands in those markets are dwarfed
16 by the excessive capacity that has been brought on
17 line globally. And, in fact, in many cases, these
18 imports are going to be also chasing that same limited
19 demand.

20 The other point I would make is that there
21 is some reference to automotive steels and while that
22 - we heard earlier that automotive weights are coming
23 down. In many cases, those new opportunities are
24 replacement opportunities, the more commodity type hot
25 rolls into higher strength hot roll example. So, I

1 think in terms of the growth, again, the key point is
2 that it's really overwhelmed by the excessive capacity
3 that's been brought on line.

4 COMMISSIONER LANE: Mr. Vaughn?

5 MR. VAUGHN: Commissioner Lane, I would just
6 like to make for the legal point, following up on what
7 these guys have said. And this really goes back to
8 the back and forth between the parties in this case,
9 and this is just one of many examples where throughout
10 their brief, they will point to this anecdote or that
11 anecdote.

12 COMMISSIONER LANE: Are you talking about
13 the Respondents?

14 MR. VAUGHN: Yes. I'm sorry, yes, the
15 Respondents will point to this anecdote or this
16 anecdote and say this is a sign of good demand; this
17 is a sign of good demand. And that's why what we
18 tried to do and we think the Commission really needs
19 to do with this type of a situation is to look at the
20 overall consumption number within the reasonably
21 foreseeable time, what is overall hot-rolled
22 consumption in the United States going to be. What
23 the record shows is, it's way down from where it was
24 just a few years ago and it's projected to stay at
25 relatively low levels going forward. So when you net

1 all these things out and you sort of look through the
2 anecdotes and you get down to the actual numbers,
3 those numbers wholly support the testimony from the
4 panel that you're hearing this morning.

5 COMMISSIONER LANE: Okay, thank you. Mr.
6 Busse?

7 MR. BUSSE: Just to comment on one of those
8 emerging markets you mentioned, utility poles.
9 Historically, it's kind of like railroad rails to
10 replace the market. It's not a huge growth
11 opportunity; but in years gone by, utility poles were
12 made out of angle iron, to a large degree, use spread
13 putters, talk to the farmers. To get around them
14 today, it uses more hot-rolled in single pole
15 construction because it's a better methodology and the
16 farmers can work around it better. But, these aren't
17 huge markets, but they're different markets. They're
18 opportunities.

19 COMMISSIONER LANE: Okay, thank you. I
20 thought I saw another hand in the back. Okay. On
21 page 12 of the pre-hearing brief, U.S. Steel argues
22 that if the orders and suspension agreement are
23 revoked, it is highly likely that the resulting
24 increase in imports would be heavily, if not
25 exclusively concentrated in the merchant market. Do

1 all of you on the panel, other than U.S. Steel, agree
2 that the increase of subject imports would be
3 concentrated in the merchant market?

4 MR. SCHAGRIN: Yes, we do. This is Roger
5 Schagrin for the record. Yes, we agree that the
6 imports would be concentrated on the merchant market,
7 going through trading companies. Or traditionally, if
8 you go back to the original investigation, most of
9 these imports went to service centers, producers,
10 other end users in the merchant market, and not that
11 much of it went to any related parties for downstream
12 manufacturing. And even though there are some of
13 these related parties, unquestionably, the majority of
14 the increased imports would go into the merchant
15 market for hot-rolled.

16 COMMISSIONER LANE: Okay. And U.S. Steel
17 goes on to say that the Commission should focus on the
18 potential harm that imports from subject countries
19 would have on the domestic industry and the merchant
20 market. Do you agree with that statement?

21 MR. SCHAGRIN: Once again, Roger Schagrin.
22 Yes, we agree and I invite my co-counsel to put their
23 comments on the record.

24 COMMISSIONER LANE: Mr. DiMicco?

25 MR. DIMICCO: Yes. I, also - we, also,

1 agree. To move away from that merchant market, you
2 have to go through lengthy approvals and trials and
3 testing and that's not what they're going to be
4 focusing on with the surges that will take place.
5 It's the easiest place to move it, rather than to have
6 all that time involved in getting approved. It's
7 going in the bread and butter merchant markets and
8 that's where it will show up.

9 COMMISSIONER LANE: Okay, thank you. Madam
10 Chairman.

11 CHAIRMAN OKUN: Commissioner Pearson?

12 COMMISSIONER PEARSON: Thank you, Madam
13 Chairman. Mr. Conway, I have a question, kind of a
14 broad question about employment. There's been the
15 focus on a loss of about 9,000 jobs since 1999 and
16 it's very clear that you and your membership went -
17 you went through this unprecedented change to try to
18 help the domestic industry maintain its competitive
19 position, so this particular case might not be the
20 best example. But, we deal in many of these cases
21 with productivity increases, leading to declines in
22 employment. And, here, we look over this period of
23 time, you have 9,000 jobs lost. We had about a 24
24 percent increase in productivity. The decline in
25 employment is greater than the decline in production,

1 because we have production down about 18 percent over
2 that period and employment down by 29 percent. In an
3 economy where productivity growth in manufacturing is
4 increasing more or less two to four percent a year,
5 and someone might have a more accurate number, but
6 somewhere in that range, how should we view a decline
7 in employment that is somewhat graduated? Is that an
8 indication of injury or is that just an indication of
9 life as we live it?

10 MR. CONWAY: A lot of this is technology
11 driven. In this particular instance, the
12 restructuring - we, in our agreements, provided we
13 were going to reduce the workforce nearly overnight by
14 20 percent. So, 20 percent of the workforce, we
15 developed a transition program and halved the amount.
16 So, they were just sort of gone overnight. That drove
17 a lot of productivity. A lot of productivity is
18 driven by the effects of technology, by new equipment,
19 and just by time and attrition. So, it's not all -
20 not every job loss is tied to trade. But, the
21 staggering numbers that have come in this - you know,
22 when you have to just constantly adjust to it and
23 you're constantly losing your market to it, it just
24 makes it so difficult to bring people on. It's so
25 hard to plan.

1 Right now for us, if we go for blast
2 furnace, I don't think any of these guys could sit
3 there and say with this place in cycle, with the
4 craziness that's been in it, how can you reasonably
5 say I've got to make a three-month decision to bring
6 up a furnace, invest in the raw materials in front of
7 that, find and get ready, and I don't know if this
8 price is going to hold for three weeks. It's going to
9 turn around again and right now for the six weeks,
10 we've got some pricing. I'm trying to convince guys
11 it's time to start a furnace. I mean, we're having a
12 lot of discussions about is it time to start a
13 furnace.

14 So, there is some stuff that is structural,
15 that has to do just advances and people getting better
16 skilled and technology that takes place, but the
17 predominant issue we face are the trade issues. We're
18 not - I know we're not here -- I know what we're here
19 on today and what we're not here on. I'm looking at
20 something that's telling me on bridge and bridge
21 sections in the U.S. I was hoping we would see a lot
22 of infrastructure working skill. We really yet to see
23 that. But, I'm told that imports on bridge sections
24 from China in 2007 were \$1,300.000. Last year, about
25 \$170 million, up from 300,000 tons to 42. It's just

1 staggering that our opportunity or potential and hot-
2 rolled would have played a piece in that. And then I
3 know that's China and it's not what three countries
4 are, but - so this - you know, we're suffering because
5 of trade largely, not just productivity and working
6 smarter and working harder.

7 COMMISSIONER PEARSON: Okay, thank you. Mr.
8 DiMicco?

9 MR. DIMICCO: What period are you referring
10 to?

11 COMMISSIONER PEARSON: I was looking at the
12 period from 1999 to 2010; 1999 because that was the
13 year that was highlighted in the presentation that Mr.
14 Lighthizer made and 2010 because that's the most
15 recent data we have on this record.

16 MR. DIMICCO: Okay. I thought that the
17 10,000 job number was over a shorter time frame.

18 COMMISSIONER PEARSON: Did I misunderstand,
19 Mr. Lighthizer, what you had presented? It was over -
20 since 1998.

21 MR. LIGHTHIZER: On this point, you're
22 correct, Commissioner.

23 COMMISSIONER PEARSON: Thank you.

24 MR. SCHAGRIN: This is Roger Schagrin. You
25 know, I think you're looking at labor productivity in

1 China. You know, we've had this reduction in
2 production and shipment. So, obviously, the level of
3 productivity has increased. Doesn't the increase
4 then, whether it's a union worker; is it a worker that
5 is at the non-union mini mills, Hazmat, in some way
6 contributed to the loss of jobs beyond the reduction
7 of production of shipments and, obviously, it has.

8 One important thing to point out, though, as
9 well, so that we don't, you know, say, as often
10 happens, depending where you are on the political
11 spectrum, that the only reason for massive job loss in
12 manufacturing is increased productivity, like the \$300
13 billion trade deficit with China, the overall \$600
14 billion trade deficit just don't matter. And,
15 obviously, Mr. DiMicco spends a lot of time on this,
16 work with the President, is that we're just looking at
17 the products of this investigation of hot-rolled.

18 The cost of labor per hour to product a ton
19 was \$26 in 1999 and it's \$29 today. Now, obviously,
20 workers make more. But the fact is it has never cost
21 a massive amount of labor costs to make a ton of hot-
22 rolled sheet, because we're so efficient. The plate
23 costs are closer to \$100 a ton. So, if we've got such
24 an efficient industry -- and, by the way, this does
25 not apply just to hot-rolled - because the America

1 workers are so productive, why do we have to lose
2 jobs, as we get more productive? Why can't we
3 increase our world market share? And the reason for
4 that is simple, it's usually close foreign markets and
5 unfair trade and this is a microcosm of that. There's
6 no greater example in the world that lack of balance
7 in trade in a product like steel. And so, it's just
8 there. It's not a labor problem. It's not Mr.
9 Conway's workers fault, they're losing their jobs.
10 It's just that they've suffered repeatedly from unfair
11 trade. And the Russians, Brazilians and Japanese have
12 no labor cost advantage over the U.S. At \$29 a ton an
13 hour, \$26 a ton that date ago, it was not a problem
14 then; it's not a problem now. Our problem is unfair
15 trade and let's face it, a lack of demand, and that
16 also is, as we spoke earlier, a structural problem.

17 COMMISSIONER PEARSON: Okay. Well, I want
18 to thank you for those responses. Mr. Vaughn, do you
19 have anything? Go ahead.

20 MR. VAUGHN: Yeah. I just wanted to - in
21 terms of framing this as to how you guys should look
22 at it. I mean, obviously, what we were sort of trying
23 to do on the slide and sort of have - and this fits
24 into your analysis is, part of what you're supposed to
25 be doing is, is taking into account, okay, to what

1 extent are those remaining 21,000 people vulnerable to
2 injury in the event that imports come back into this
3 country. And the fact that you do have some increases
4 in productivity; but because of problems with demand
5 because of closed markets and other markets, because
6 of things like that, the industry has not been able to
7 translate that new productivity into the same number
8 of workers making more steel, which is the other way
9 the productivity number could have gone. And so the
10 fact that all of this has been taking place on the
11 employment side because of the decline in volume, that
12 is compelling evidence going forward, the remaining
13 workers are going to be vulnerable to material injury.

14 And so - and this is very important because
15 the Respondents sort of try to argue that, well,
16 because of consolidation, even if the domestic
17 industry loses volume, they can survive. We disagree
18 with that. But even beyond that, these workers are
19 not going to survive. I mean, they're going to
20 continue to lose jobs. And so that's how I think
21 those figures fit into your analysis.

22 COMMISSIONER PEARSON: Okay. Well, if
23 anyone wishes to say more about this in the post-
24 hearing, by all means go ahead. The whole question of
25 labor productivity and how it influences the data we

1 have in front of us is an issue in a number of our
2 investigations and likely will be in the future. And
3 so, here, on this record, it's somewhat dramatic and
4 if there are more things we should know about it, by
5 all means, do.

6 Mr. DiMicco, I am going to ask you to
7 withhold. I had a quick question on an entirely
8 different issue and it is, if we were to consider
9 Japan separately from the other countries, and I know
10 that's not what you're suggesting to do, but how
11 should be interpret the overselling by the Japanese
12 that is so observable in our pricing product? I mean,
13 is Japan going to continue overselling and are they -
14 would they be able to take sales away from the U.S.
15 producers? Mr. Vaughn, again?

16 MR. VAUGHN: I'll just start and other
17 people can comment if they have other ideas. But, I
18 think the first thing you've got to remember is that
19 they've been under order and that this has really
20 limited what they've been able to sell and what
21 they've been able to do in this market.

22 COMMISSIONER PEARSON: As I recall, they
23 were overselling in the original investigation.

24 MR. VAUGHN: They were overselling in the
25 original, although there was also significant volumes

1 of underselling in the original and the Commission
2 ultimately found that Japanese imports were
3 contributing to price effect in the original
4 investigation. So, I think that you should give very
5 little weight to isolating instances of overselling
6 with orders in place and you should give more weight,
7 for example, to some of the evidence that we've put on
8 the record of Japanese sells at relatively low AUV and
9 other markets. And that's going to be much more
10 representative of what they're going to be doing once
11 they come back into this market without the
12 disciplinary effects of an order.

13 COMMISSIONER PEARSON: Okay, thank you.
14 Madam Chairman, my time has expired. I think that I
15 have no further questions for this panel. I thank
16 them for the very thorough answers to the questions
17 that I did pose. It's been a pleasure having all of
18 you here; good to see you again.

19 CHAIRMAN OKUN: Commissioner Aranoff?
20 COMMISSIONER ARANOFF: Thank you, Madam
21 Chairman. The Japanese Respondents argue that we
22 should look carefully in this case at what has
23 happened since the revocation of the order on
24 incursion of the steel from Japan and my observation
25 is there's been some increase in imports, but from a

1 kind of low level. How should what has happened since
2 revocation of the order on corrosion effect our
3 assessment in this review; and, in particular, if
4 there's something different about the Japanese hot-
5 rolled industry and the conditions they face versus
6 the industry, that we should be taken into
7 consideration? I see Mr. Scherrbaum.

8 MR. SCHERRBAUM: Joe Scherrbaum, U.S. Steel.
9 A couple of points on that. First of all, it's a
10 timing issue. The corrosion order was lifted late
11 2006, early 2007, and then for the automotive
12 industry, most of their contracts wasn't in place by
13 then for that year. Then when we went into 2008, the
14 automotive business started to collapse the second
15 half of the year. A couple of the automotive
16 companies went actually bankrupt and whole operations
17 for a bid in early 2009. Basically, corrosion
18 resistance, there really wasn't much of a market for
19 them to come into. Everybody was scrambling on the
20 automotive side.

21 And secondly on that, with, again, the car
22 companies scaling back, purchasing groups, et cetera,
23 they're looking to do more and more, I don't know if
24 you'll call it one-stop shopping, or they're looking
25 for suppliers that can supply all the products, not

1 just corrosion resistance. So, again, give them now
2 access to hot-rolled, plus to give them ability to be
3 a full line supplier, which would be a real threat to
4 us.

5 MR. BLUME: Commissioner, Rick Blume, Nucor.
6 Just a couple of points to add to that. Certainly,
7 one big factor that has changed has been the massive
8 capacity build that's gone on in China and additional
9 capacity with respect to Korea. So the fact that it
10 would be tremendous pressure on the Japanese industry
11 to find markets to be able to - as we know, they're a
12 significant exporter. So, in fact, they're going to
13 experience displacement. They're going to be pushed
14 out of some markets by some of these other Asian
15 producers. So, I think that's a big significant
16 change that's happening.

17 The other point that I would make why it's
18 potentially a threat here is we know that there's a
19 lot of discussion around the Japanese and their
20 involvement in the U.S. automotive sector. The
21 reality is, is they have a very large installed
22 customer base here, trading companies. They have
23 distribution within - in the U.S. So, certainly, they
24 have the ability to bring product here, as it is
25 displaced from some of these other global markets.

1 COMMISSIONER ARANOFF: Okay, thank you for
2 those answers. Another topic that has come up today
3 has been, as well as the prices in the U.S. and other
4 markets -- and I think the evidence on the record is
5 pretty clear that right now at least U.S. markets and
6 U.S. prices are higher than prices in other markets.
7 The data that we have on the record, some of which I
8 apologize is proprietary, shows that that hasn't
9 always been the case, although I guess the U.S. has
10 arguably been among the highest markets at the time
11 that we place it. We have on the record that there's
12 a lag time between when you can order an imported
13 product and when you actually get it. I think two to
14 six months is the information we have on the record.
15 And so what I wanted to ask is to what extent, given
16 the volatility that we've seen in demand and prices
17 and everything else, to what extent is the fact that
18 prices in the U.S. at any moment in time are higher
19 than prices in some other market an incentive to
20 divert volume here, if you may not know what you're
21 going to sell it for, for a number of months down the
22 road when it's going into the merchant market?
23 Because, there's been this idea that prices are high
24 now, that's the incentive; but, that assumes a certain
25 certainty that they'll still be pretty good two to six

1 months down the road. Does anybody want to take a
2 stab at that?

3 MR. SCHAGRIN: Commissioner Aranoff, I'll
4 take a stab. A lot of people in other segments of
5 industry, who buy a lot of steel, I think that in
6 terms of setting up that lag period, you gave a sense
7 in your question that isn't the seller going to face
8 difficulties because they don't know two to six
9 months, maybe in these days more like an average of
10 three months or so, what they're going to get for when
11 a lag is here. The seller is not taking any risk.
12 When the seller makes a deal with the buyer in the
13 U.S., the seller knows what they're going to get. If
14 steel price in the U.S. are 900 and the seller says,
15 wow, this is really attractive, I'll take 800
16 delivered U.S., they know what they're going to get.
17 The buyer may say, well, and that lags in three
18 months, maybe U.S. prices are at 900 and I didn't get
19 such a good deal getting it at 800 because maybe U.S.
20 prices are 750. So, it's the buyer that takes the
21 risk.

22 One of the things about the differentials,
23 which is pointed out in the original slide
24 presentation, is now those differentials are so
25 significant and that's even without the unfairly

1 traded imports from Japan, Russia, and Brazil. The
2 best comparison is world export prices to U.S. price.
3 Today the differential is \$200 a metric ton. That's
4 today. That's world market searcher information -
5 hot-rolled bench marker information - world bench
6 marker information. It's \$200 a metric ton. That
7 differential - there's not a lot of buyers, who think
8 that U.S. prices are going to fall by \$250 in the next
9 12 weeks. So, that makes it really attractive. Can
10 we forecast what's it going to be like in the next
11 three months? Six months? Nine months? Twelve
12 months? I'd be in a different business.

13 But the seller, they don't have any risk.
14 The buyer will measure that differential and I would
15 say that information we have on the record shows that
16 differential is so significant. Would they place
17 orders at the world export price tomorrow, if the
18 Brazilians, Russians, Japanese? I would submit to you
19 that there is a boatload of U.S. buyers that would do
20 that. And, in fact, we're actually seeing - if you
21 look at the CEMA data, we're already seeing imports in
22 March overall steel at one of the highest levels in
23 the past three years. So, it's already happening.

24 COMMISSIONER ARANOFF: When you're talking
25 the purchasers who would be willing to take the risk,

1 of course, when you're talking about the merchant
2 market, you're talking about distributors or service
3 centers people, people who are in the business of
4 buying steel and holding it for inventory, and hoping
5 they can sell it for more than they bought it for.

6 MR. SCHAGRIN: Or price to producers, people
7 who are actually using it. So, it would be both, you
8 know, users, who are big enough to buy directly, as
9 well as service centers and distributors.

10 COMMISSIONER ARANOFF: Okay. Mr. Hecht?

11 MR. HECHT: yeah, I just wanted to add,
12 also, that in terms of what projections are out there,
13 they are projecting this price differential, a
14 significant price differential to persist for quite
15 some time and certainly through the reasonably
16 foreseeable future. I think you've seen in past cases
17 that, typically, there has been a higher price level
18 here. There were certainly a few years during this
19 period of review where that was not the case, that
20 we've talked about it. I think if you look at the
21 history of it and also what the projections are going
22 forward, there's every reason to believe that people
23 will find this to be a very attractive market, both in
24 terms of its size and the likely pricing differential.

25 COMMISSIONER ARANOFF: Let me try to squeeze

1 in one more question before my time is up and folks
2 are welcome to say more about this in the post-hearing
3 brief. I was looking over the Commission decision
4 from the 2007 hot-rolled review and in that case, the
5 Commission had focused on the fact that between 2001
6 and 2006, the percentage of domestic producers sales
7 made pursuant to contract versus on a spot basis had
8 increased. But, the Commission also found that
9 contracts had shifted from being multi-year contracts
10 to being annual or even shorter term, particularly in
11 the automotive sector. And I just want to get an
12 update, in terms of conditions of competition on where
13 the market is with respect to contract versus spot
14 sales and the duration of typical contracts in the
15 market.

16 MR. SCHERRBAUM: Joe Scherrbaum, U.S. Steel.
17 I would say in general on contracts, the duration of
18 them are getting shorter than they were in the period
19 you referenced earlier. One of the primary reasons is
20 the volatility in the raw material costs and inability
21 to be able to lock in a firm price. Given the
22 volatility of the costs, I think protects both sides -
23 a big winner and a big loser over a longer period of
24 time. I think we're both better off with a little bit
25 shorter versus, again, a long-term relationship, where

1 somebody comes out way ahead and somebody else is way
2 behind.

3 COMMISSIONER ARANOFF: Has there been a
4 continuing trend towards more sales under contract and
5 fewer sales in the spot market?

6 MR. SCHERRBAUM: I think it probably stayed
7 about the same as it was at that point in time, from
8 our perspective.

9 COMMISSIONER ARANOFF: Okay.

10 MR. BLUME: Commissioner Aranoff, Rick
11 Blume. I would describe the market as trending more
12 toward spot business, quite frankly. Again, when I
13 talked earlier about the risk that occurs because of
14 the inability to protect yourself against the raw
15 material issues, and so certainly, in our business,
16 and I think what we're hearing in the competitive
17 marketplace, contractual sales are less, putting more
18 of our product on the spot market, and then,
19 ultimately, making these order very, very important to
20 our business and to the industry.

21 You know, just a few follow-on points.
22 Again, it is a very, very important product, as I
23 mentioned, because of the volume of hot-rolled in our
24 mix, but also because of being more exposed to the
25 spot market. And the other point that I would make is

1 that a very little amount of imports, unfairly-traded
2 imports has a significant market impact that's greater
3 because we do have more exposure on the spot market.
4 And, finally, just to sum up the comment, certainly,
5 these producing countries have the ability to be
6 disruptive and certainly these are the most important
7 - of the most important four or five countries, that's
8 important to keep these orders in place.

9 COMMISSIONER ARANOFF: Mr. Blume, just to
10 clarify my understanding. Were you saying that
11 customers that used to purchase under contract are not
12 doing it or are you saying that there's less demand
13 from the customers, who purchase pursuant to contract,
14 as a result of which more of your business is in the
15 spot market?

16 MR. BLUME: Well, I would answer that
17 question this way. Certainly, a contract - you have
18 to have both partners, who are willing to agree to
19 those contract terms. So, it's a little bit of both.
20 In some respect, the customers are less interested in
21 contracts. There is certainly a segment of customers
22 that want contracts, need contracts. But, there's a
23 middle ground that doesn't and that tends to swing
24 based on the environment. And certainly from a
25 producer's standpoint, we back off from exposure.

1 COMMISSIONER ARANOFF: Okay. Well, my time
2 is up, but let me give Mr. Busse a final word on this.

3 MR. BUSSE: I would direct - I think there's
4 four or five businesses available today, less contract
5 business available. A lot of the C changes that
6 occurred were spot at our pricing. You used to be
7 able to buy an iron ore for - out 12 months and today,
8 the producers would not sell you for a longer period
9 of time than three months and that's created a
10 dynamics change.

11 COMMISSIONER ARANOFF: Thank you to all of
12 you. I appreciate those answers. Madam Chairman, I
13 don't think I have any further questions.

14 CHAIRMAN OKUN: Commissioner Pinkert?

15 COMMISSIONER PINKERT: I just one or two.
16 First of all, Mr. Price, did you have anything you
17 wanted to add about any mini-mill variable cost
18 advantage?

19 MR. PRICE: I think we - I think it was
20 adequately addressed by Mr. DiMicco. I think that the
21 discussions of scrap dynamics over the last decade he
22 covered and so forth. So, I'll think about it and
23 address it further in the post-hearing brief.

24 COMMISSIONER PINKERT: And if you have any
25 additional data on export pricing that we don't

1 already have, that would be helpful, as well.

2 MR. PRICE: Absolutely. And there has been
3 a significant amount of exports. There's essential a
4 single scrap price for the minor regional variation
5 around the United States; but that's the world price,
6 so that's what we export. We're the world market
7 supplier of scrap to the world, along with Europe.
8 So, it really has unified this market and it's
9 significant competitive dynamics.

10 MR. BUSSE: I think from the standpoint,
11 it's a two-edge sword. When scrap prices surge, you
12 can be at a disadvantage versus the cost of iron that
13 you manufacture and we do manufacture iron. When the
14 scrap prices tank, it can be an advantage. But, it's
15 not the historical continual advantage that it was 20
16 years ago. It's kind of up and down. It depends on
17 timing to a great degree.

18 COMMISSIONER PINKERT: Thank you. I just
19 have one additional question and it concerns whether
20 Japan has a quality advantage over Chinese production
21 of hot-rolled and, if it does, is that quality
22 advantage diminishing over time or is it staying the
23 same?

24 MR. DIMICCO: Certainly, when China was
25 going through the massive building of steel capacity,

1 there was a major advantage for the Japanese and
2 European producers, with respect to quality, and U.S.
3 producers if we could have sold there. But that has
4 changed because a lot of partnerships have formed
5 where the technology is the partnership, not so much
6 ownership in the facility. So, Japanese steel
7 companies have formed partnerships with Chinese steel
8 companies and so they have now progressed to be able
9 to produce the higher quality grades of product today
10 and a much more significant volume than they did, say,
11 five years ago.

12 COMMISSIONER PINKERT: Mr. Surma?

13 MR. SURMA: Commissioner, just to add to
14 that. I think it's probably not susceptible to a real
15 simple answer because the breadth of technologies and
16 technological capability that's evident in the 600
17 million ton Chinese steel industry is very broad and
18 there would be some quality levels, which would be
19 very inadequate for many applications that a more
20 advanced economy might require. But, there's lots and
21 lots of things in China that their quality is plenty
22 good for and there would be some areas where, as my
23 colleague points out, that the newer Chinese
24 development is probably just as good technology and
25 quality-wise as virtually anything else in the world.

1 So, it's a wide spectrum that there would be some
2 where certainly they're coming up pretty quickly.

3 COMMISSIONER PINKERT: Mr. Price?

4 MR. PRICE: Yes. One of the things of
5 record in this case is that perception of quality
6 differences, even among the subject countries, has
7 really collapsed and that's because, you know, world
8 class equipment has come across and technologies have
9 really spread globally. So, the Russian producers,
10 who were considered very low quality producers early
11 on, now are viewed as very equivalent, their imports
12 to domestic product. You see some JVs, for example,
13 in Japan that the Japanese point to. It's technology
14 JV. Bao Steel has fantastic quality. They're a JV
15 with Nippon. A lot of the substrate now is all Bao
16 and so forth. So there's no quality issue
17 distinguishing. There's a major Japanese JV with
18 Tahoe right now. It's a technology JV. The substrate
19 is India. So the idea that there's these huge quality
20 advantages that exist between Japan and the rest of
21 the world anymore, whether it's China, whether it's
22 Russia, whether it's Brazil, really just doesn't - or
23 the United States, really doesn't hold water. The
24 world has gotten a lot smaller, as the technology has
25 really become much more equivalent across all markets.

1 COMMISSIONER PINKERT: Thank you. Thank
2 you, Madam Chairman.

3 CHAIRMAN OKUN: I think just two follow-up
4 questions from me. I want to just continue on the
5 issue with respect to China's impact on both export
6 patterns and trade patterns for the subject imports.
7 And then I will be asking Respondents to provide more
8 specifics with respect to some of the trade patterns
9 that they rely on to indicate why they don't have to
10 come here. But, in your post-hearing, if you can go
11 into further detail, have information about particular
12 joint ventures, and I know you have some of it already
13 in your brief, but just to respond to that. And in
14 some cases, the Respondents' brief do have very
15 specific numbers in there and you may not be able to
16 comment on those, but just to encourage you to look at
17 the specifics that are provided and respond to those.
18 That would be very helpful.

19 And my second question - I just forgot. I
20 may remember it in a moment. But, I know corrosion
21 resistance was covered, so it wasn't that. I will
22 turn to Vice Chairman Williamson.

23 VICE CHAIRMAN WILLIAMSON: Thank you, Madam
24 Chairman. Also, I just have a couple of questions.
25 To the extent you haven't commented already, I was

1 wondering if you could describe the market environment
2 of the hot-rolled steel during early 2011 and to each
3 of the companies, have you increased hot-rolled
4 prices? Mr. Blume?

5 MR. BLUME: Yes. Rick Blume, Nucor. The
6 market environment, as we see it right now, is very
7 tentative. Again, there's been some discussion about
8 price increases. But, in many cases, in most case,
9 that was driven by the raw material costs. It's
10 obvious if you look at the data. But as we get
11 feedback today from our customers, we continue to hear
12 concerns about additional import offers that are out
13 there. It's creating a very tentative market and,
14 quite frankly, the forward look is becoming more and
15 more cloudy.

16 VICE CHAIRMAN WILLIAMSON: Okay. Yes, Mr.
17 Busse?

18 MR. BUSSE: I think the market has become
19 more tentative; but as I said earlier, I think there's
20 much larger demand of component available today than
21 there was a year or two ago. But, I think there's a
22 lot of - there's a lot of nervousness about all the
23 unrest in the Middle East and the impact of the
24 problems that Japan is having and supply curtailment
25 and the impact it might have on steel demand. So, I

1 think it has grown more tentatively, certainly.

2 VICE CHAIRMAN WILLIAMSON: Okay. Mr.
3 DiMicco?

4 MR. DIMICCO: There's certain dynamics that
5 go to work when raw material prices for its producers
6 have start raising their selling prices. The
7 mentality in the marketplace when say, for instance,
8 scrap is falling is the customer base will say, well,
9 I'm not going to buy, okay; I'm not going to buy
10 because I think next week the price of scrap is going
11 to be lower and so because demand is soft, I'll be
12 able to get a better price. When does that image
13 bottom out or pique out, either way? When those
14 dynamics start to change, the mentality of the
15 customer base changes.

16 So, if scrap prices and iron ore prices and
17 coal prices start going through the roof, producers
18 will recoup those costs as best they can. And the
19 mind set is, it's going to be more expensive next
20 month than it is this month, so I need to buy. And if
21 that continues for several months, that sort of panic
22 that takes place within the customer base that says,
23 Jesus, these prices are going to keep going up, I
24 better place a lot of orders. When things start to
25 flatten out, like they have here recently, very

1 recently, you know, a customer starts saying, hmm, am
2 I another inflection point, okay, and maybe they
3 bought more than they really needed to.

4 I think they do a better job of not doing
5 that today than they have in a long time, but they
6 still have a tendency to do it, buy ahead, because
7 prices have gone up. And then that starts to reflect
8 the market dynamics. If the raw material prices start
9 to pique out or slightly fall, then they'll back away
10 from the market again. Right now, the dynamics that's
11 out there is there's been this unsettling. Iron ore
12 prices have fallen, now they're going back up. Scrap
13 prices have gone up; not they've plateaued out, maybe
14 dropped a little bit. But it's this uncertainty is
15 aware raw materials are going to be going forward and
16 that has an influence in the marketplace and creating
17 some of the uncertainty you've heard about.

18 VICE CHAIRMAN WILLIAMSON: Okay.

19 MR. SURMA: I can't add much to my
20 distinguish colleagues. I think uncertainty is a good
21 word for. My technical term would be the market is
22 just okay; Mr. Vice Chairman, just okay. And we won't
23 say much about it publicly until we get our results
24 out and released in a few weeks. But, the high cost
25 of raw materials, if we wish to make more, if the

1 market demand is there, really makes it difficult for
2 us to make that judgment because of the viciousness of
3 these cycles. And they're so rapid and so - can move
4 over such a wide spectrum, that that decision to make
5 incremental time can be a very risky decision for us
6 and I think we need to have some value in the
7 marketplace to encourage that. Whether or not the
8 current market stays stable and allows us to make more
9 remains to be seen; a very uncertain market.

10 VICE CHAIRMAN WILLIAMSON: Okay. The
11 Respondents pointed out that in January 2011, you told
12 investors that North American operations were sold out
13 through March. Now, which one of you want to comment
14 on whether it has continued or -

15 MR. SURMA: We said that - I think that was
16 in late January when we issued our fourth quarter -

17 VICE CHAIRMAN WILLIAMSON: Yes.

18 MR. SURMA: - results. Our North American
19 flat-rolled business had lost 156 million in the
20 fourth quarter, just to refresh your memory on that.
21 And I think we said we expected some slight
22 improvement in the first quarter. We did say that our
23 operations that we were then currently running were
24 relatively fully booked because we had some
25 maintenance outages and other things that weren't

1 giving us our full utilization that would otherwise be
2 available. And as well, we had a problem with one of
3 our industrial gas suppliers. It was a very major
4 facility that really took us out of production for
5 several weeks, a better part of a month, we're still
6 just catching up from. So, the situation is
7 relatively similar to what we said then, but we were
8 fully booked or nearly fully booked, but not at our
9 full production capacity.

10 VICE CHAIRMAN WILLIAMSON: Okay. Does
11 anyone else wanted to add something on this question?

12 MR. BLUME: Yes. Commissioner Williamson,
13 Rick Blume, Nucor. Certainly, as we look at our
14 capacity, we've mentioned before that we are not fully
15 sold out. We have capacity that's available for the
16 marketplace and a commercial scene, actively engaging
17 their customers, looking for business. So, the
18 capacity is there.

19 VICE CHAIRMAN WILLIAMSON: Thank you. Mr.
20 Mull?

21 MR. MULL: Yes. We have just, over the
22 weekend, brought up some additional capacity, in order
23 to meet improvement in demand we have seen. But, as
24 we have done that, because it takes time for us to
25 bring these facilities up, we have great concern about

1 the interruptions we're now going to see from the
2 automotive sector due to their challenges of being
3 able to make vehicles. So, once again, supporting
4 everybody else's comments, it's better, but it's still
5 very cloudy as we look forward to the future.

6 VICE CHAIRMAN WILLIAMSON: Several of you, I
7 think, have made reference to the fact you didn't want
8 to see a 2010, where, I guess, the first part was half
9 as great than the second half. I didn't quite
10 understand what happened there and maybe how does that
11 apply now.

12 MR. MULL: I think what really took place
13 was at the end of 2009, we were still trying to figure
14 out where we were in the bottom of the recession and
15 inventories had certainly been depleted throughout the
16 marketplace. And we started to come into the new year
17 and we certainly saw strong demand and people were
18 starting to replenish inventory in the feeding frenzy
19 that Mr. DiMicco referenced. People see prices going
20 up and availability becoming more of a concern,
21 started to feed on itself, and I think we probably
22 misread that as true demand and it was really a short-
23 term situation.

24 And the economy was starting to have a
25 little bit of recovery there in the early 2010 and

1 everything kind of settled out and we saw ourselves in
2 the second half of the year being challenged with
3 manufacturing dropping back and no additional need for
4 replenishment in inventory. And we actually saw our
5 fourth quarter being quite weak, from a demand
6 standpoint. Pricing was very sporadic and probably
7 set up part of what we experienced in the first half
8 of this year so far, to Mr. Busse's position that
9 we're seeing more solid demand. I've got my fingers
10 cross that's the case because I'm sort of on record
11 with that. Our boss says that the case, so I
12 certainly hope it's coming true.

13 VICE CHAIRMAN WILLIAMSON: Thank you.

14 MR. MULL: Yes, sir.

15 VICE CHAIRMAN WILLIAMSON: Okay, Mr. DiMicco
16 and then Mr. Surma.

17 MR. DIMICCO: Just quickly, the quotable
18 dynamics have a lot to do with what takes place in our
19 markets around the world and sometime in the middle of
20 last year, you had Europe become a big issue. That
21 started to effect people's mentality about their
22 business and the uncertainty and the overall economy,
23 would we go back into a double dip. So, it started to
24 impact people's buying habits.

25 Today, we have a similar type of situation

1 happening with respect to international activities,
2 whether it be the unrest in the Middle East that
3 continues to spread and effect what's going on there.
4 It effects what people can sell into those markets; or
5 the disaster that's taking place in Japan. And the
6 uncertainty as to how all of that is going to effect
7 the global economy, which is still a very fragile
8 stage of recovery.

9 So all of those things start to affect
10 people's thinking about their level of business and
11 should they be buying more, should they be sitting
12 down, you know, and just staying pat with where
13 they're at. All of these things add into what happens
14 in the dynamic between, say, what happened in the
15 first six months last year and then the second six
16 months. And here we are again, you know, just getting
17 into a new year, there's a tremendous amount of
18 uncertainty being created in the world. After that,
19 everything else that people have said at this point,
20 as well.

21 VICE CHAIRMAN WILLIAMSON: Thank you. Mr.
22 Surma?

23 MR. SURMA: Just to illustrate how difficult
24 it was for us, Mr. Vice Chairman, we make steel in
25 several locations in North America. We operate 12 to

1 13 blast furnaces typically. We were only operating
2 three of those facilities and about four or five blast
3 furnaces at the very bottom of the market back in
4 2009. Beginning in the first part of last year, there
5 seem to be some cohesion. The market was moving in
6 our direction or so we thought. My colleagues have
7 pointed out it was a bit of a false alarm. We began
8 to restart facilities, which is lengthy, expensive,
9 call back employees, go through all that, buy raw
10 materials. We were all set to go and then other
11 things happen and the market dissipates.

12 We're just now recovering from all of that.
13 We're just now consuming all of those materials, just
14 now getting to the point where we might have a chance
15 of making a profit if we can shake off some of the
16 current issues that we have in front of us. And the
17 very last thing we need now, after having gone through
18 all that and our employees having gone through that,
19 is more unfairly traded steel in this market.

20 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
21 for those answers and I have no further questions.

22 CHAIRMAN OKUN: I remembered my last
23 question and this can be for post-hearing and then I
24 shall bring it up this afternoon. But two of the
25 briefs from those in opposition to continue the order

1 reference antitrust cases ongoing against producers.
2 And so for completeness of the record, I wanted to
3 give you the opportunity to respond post-hearing.

4 I don't think there are any other questions
5 from Commissioners. Let me turn to staff, to see if
6 staff has questions of this panel.

7 MR. CORKRAN: Douglas Corkran, Office of
8 Investigations. Thank you, Madam Chairman, staff has
9 no additional questions.

10 CHAIRMAN OKUN: Thank you. Let me turn to
11 counsel for Respondents. Do you have questions for
12 this panel?

13 MR. MCCONNELL: We have no questions, Madam
14 Chairman.

15 CHAIRMAN OKUN: Okay. Before we break for
16 lunch, I want to take the opportunity to again thank
17 this panel of witnesses for all of your time this
18 morning and this afternoon.

19 (Panel excused.)

20 CHAIRMAN OKUN: This will be a good time to
21 take a lunch break. We will break for one hour; we'll
22 return at 2:45. I remind parties that the room is not
23 secure, so please don't leave any confidential
24 business information. And with that, the hearing will
25 stand in recess.

1 (Whereupon, at 1:45 p.m., the hearing in the
2 above-entitled matter was recessed, to reconvene at
3 2:45 p.m. this same day, Tuesday, April 6, 2011.)

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2 (2:45 p.m.)

3 MR. BISHOP: Would everyone be seated.
4 CHAIRMAN OKUN: CHAIRMAN OKUN: Good
5 afternoon. This hearing of the International Trade
6 Commission will please come back to order. Mr.
7 Secretary, I see that our second panel is seated.
8 Have all the witnesses been sworn?

9 MR. BISHOP: Yes, Madam Chairman. Those in
10 opposition to the continuation of the orders have been
11 seated, all witnesses have been sworn.

12 CHAIRMAN OKUN: Very well, you may proceed.

1 provide answers in a post-hearing brief.

2 Ford believes that the orders under review
3 should be revoked. I would like to make three points.
4 First, our partnership with U.S. steel producers is
5 critical to Ford's future. The U.S. automotive
6 industry was hard hit in the recession, but we are
7 recovering rapidly. Even during the downturn, Ford
8 continued to overhaul our U.S. assembly plants,
9 including Chicago assembly, where we make the Taurus
10 and the new Explorer, and our Wayne, Michigan assembly
11 plant, where we make the Focus, including the battery-
12 electric Focus. We can profitably produce cars and
13 trucks in the United States and we are making the
14 investments and creating the jobs to do so.

15 A big part of this is exporting to foreign
16 markets. President Obama has set the goal of doubling
17 exports in five years. Overseas auto markets are
18 growing rapidly and we believe that we can export
19 increasing numbers of U.S.-built vehicles to these
20 markets. If we are going to succeed, our suppliers,
21 including our steel suppliers, must provide us with
22 the best in materials and parts.

23 At Ford, we believe that innovation comes
24 from healthy and fair competition. Just as we have to
25 be world class with our product, all suppliers up the

1 chain must face the world's best competition, as well.

2 Second, the restructured steel industry is
3 ready to face competition. It has weathered the worst
4 recession in 70 years and is making money again. It
5 is shown that it can hold prices up even in the
6 sharpest downturn and that it can pass through high
7 raw materials prices. Let me give you one fact. When
8 you last reviewed these orders in 2005, you were
9 looking at a hot-rolled steel industry that had lost a
10 cumulative \$285 million during the review period.
11 Now, you are looking at a hot-rolled industry that has
12 made a cumulative \$19.7 billion during the review
13 period and that includes the deepest recession that
14 any of us in the room have ever seen.

15 Third, you are reviewing a decision that was
16 made in 1999. That decision was based on trade in
17 steel as it was 12, 13, and 14 years ago. The world
18 today is a very different place. Back then, Asia was
19 in a deep recession. The world's growth was here.
20 The United States was booming at the height of the
21 internet bubble. Gas was around a dollar a gallon.
22 But all of that has changed. The U.S. is no longer
23 the market of last resort for steel. There are
24 growing, very attractive markets outside of the United
25 States and these steel markets are a permanent

1 addition to the global economy.

2 We urge you to base your decision on the
3 facts as they stand now, not then. We have a
4 restructured, competitive U.S. industry that has
5 proven itself. Foreign steel mills have great
6 opportunities and growing markets in their own
7 backyards. There is no clear reason for them to ship
8 large volumes to the United States and the U.S.
9 industry has proven that it can face competition. We
10 urge you to revoke the orders.

11 Now, our counsel, Mark McConnell, will focus
12 on the restructuring of the steel industry since 1999.

13 MR. MCCONNELL: Thanks, Paul. Mark
14 McConnell on behalf of Ford Motor Company. We think
15 that the restructured steel industry is not vulnerable
16 and I'm going to walk you through a graph that shows
17 this and we think this will demonstrate three key
18 points.

19 First, the restructuring is such a
20 transformation. The events before 2005 are
21 meaningless. You can ignore arguments that are based
22 on the late 1999s.

23 Second, low capacity utilization is no
24 longer a sign of weakness. Before the restructuring,
25 mills had to run at high rates just to get revenue,

1 just to cover fixed costs. Now, reducing production
2 is how the industry keeps prices high.

3 Third, the industry has proven that it can
4 pass through its costs, those high raw materials costs
5 you heard so much about this morning, even in the most
6 difficult market imaginable.

7 Let's start on the chart in 1996, the first
8 year of the investigation. Here, we track commercial
9 hot-rolled shipments and the value of those shipments
10 per ton. In 1996, the industry shipped 21-1/2 million
11 tons. That's the blue dot up here. The bottom orange
12 dot is the value of those shipments. In 1996, that
13 was just under \$350 a ton. Now this is not a spot
14 price; this is the value of all commercial shipments,
15 spot and contract, and all data from the Commission's
16 own staff reports. In 1996, there were 28 different
17 U.S. hot-rolled producers. Most of them had to cover
18 high fixed costs, including pensions and healthcare
19 for retirees.

20 Now, let's look at the years 1997 to 1999.
21 Large volumes of imports, as you know, came in,
22 particularly during 1998. Asian markets were very
23 weak during the currency crisis and the United States
24 was booming, so steel came here. U.S. commercial
25 shipments grew during this period and not surprisingly

1 prices fell. What's happening here is that the U.S.
2 mills with no market power had to find a way to cover
3 high fixed costs, as their prices fell. They had to
4 raise more revenue. And the only way they could do
5 that was to ship more volume, but that additional
6 volume drove prices down.

7 It was particularly bad in 1999. Imports
8 were restrained, but U.S. consumption fell 14 percent.
9 If you look at the top line, into that 14 percent
10 reduction in demand, U.S. producers shipped 12 percent
11 more and prices fell 12 percent.

12 This is the problem of the old steel
13 industry. Producers had no choice but to ramp up
14 volume to raise revenue. We see this even more
15 clearly in 2001. When the 2001 recession hit, the
16 industry was not able to cut back volume to hold up
17 prices. The industry shipped more than 22 million
18 tons. It shipped those tons into a market that was 14
19 percent smaller than the year before. And what
20 happened? The value per ton fell 13 percent.

21 Imports were not the problem. They were
22 only a quarter of the 1998 peak at that point. Over
23 production in United States was the problem. The
24 mills had to run volume to cover fixed costs, even
25 though that volume drove down prices.

1 Now, let's turn away from the chart for a
2 moment and talk about how the consolidation fixed that
3 problem. By 2005, the sixth largest flat-rolled
4 producers had become just three firms. Large retiree
5 healthcare obligations had been eliminated by
6 bankruptcy and the government had assumed over nine
7 billion dollars in pension obligations. This
8 radically reduced fixed costs. It, also, consolidated
9 production in a few hands, creating market power. I
10 don't have access to the confidential data that you
11 have; but if you sum the market shares in this
12 industry of Arcelor, Nucor, and U.S. Steel, you will
13 get a very large number.

14 The ability to restrain production and
15 lowered fixed costs that let the industry made money
16 when it restrains production, that's the key to the
17 restructured industry. The industry now has the power
18 to hold up prices. You can see this on the chart. I
19 just drew out the lines for 2003 and now see the
20 effect of the consolidation.

21 In 2004, values spiked to 238 - excuse me,
22 \$538 a ton. Volume increased, as well, as you can see
23 there in 2004 in a strong market.

24 Another point, in 2005, demand slackened.
25 U.S. consumption fell nine percent, but the steel

1 industry held value at 539 a ton. How did they do
2 that? By cutting volume back sharply. The industry
3 did something it couldn't do before the restructuring.
4 It cut its shipments by nearly nine percent, the same
5 as the drop in consumption, and you can see that on
6 the blue line at the top of the chart.

7 Two-thousand-six and 2007 were very
8 profitable years. The industry held back - held
9 prices high and made more money. In 2008, the
10 industry faced a new challenge, historically high raw
11 materials costs. Economic growth worldwide drove
12 materials prices to levels that had never been seen
13 before. Yet, the industry cut volume 12 percent below
14 2006 and drove prices to historic levels. Value in
15 2008 was \$730 a ton.

16 The challenge of 2009 was completely
17 different, a collapse in demand. If there was ever a
18 test of the restructuring, this was it. We auto
19 makers cut production in half. GM entered bankruptcy
20 on June 1st. The industry responded by cutting volume
21 another 40 percent. Prices fell, too, but they stayed
22 at \$525 a ton. And raw materials prices dropped off a
23 cliff in 2009, which limited the damage to profits.

24 In 2009, the hot-rolled producers lost less
25 than two billion dollars on operations, and that's

1 worth noting. In the greatest recession we have seen,
2 they lost less than two billion dollars. Now this
3 followed five straight profitable years after the
4 restructuring, where they made more than \$28 billion
5 on operations.

6 And that brings us to the present. In 2010,
7 steel producers recovered rapidly, a lot faster than
8 some of their customers. Volumes increased and the
9 industry raised prices. The industry, as a whole,
10 made profits, even though capacity utilization was
11 less than 69 percent.

12 What's the lesson of this? I think there
13 are three. First, today's industry, to the right of
14 the dividing line here, if I can get it up -- there we
15 go - today's industry, to the right of the dividing
16 line, is fundamentally different from the industry to
17 the left of the dividing line before the
18 restructuring. You should look with great suspicion
19 on arguments based on things that happened before the
20 consolidation.

21 Second, low capacity utilization is no
22 longer a sign of weakness. It is, in fact, a sign of
23 strength. It's how industry can hold prices high. In
24 2002, the industry ran at 88.9 percent of capacity.
25 It was protected from imports and it lost money. In

1 2010, the industry ran at 69.9 percent capacity and
2 made money.

3 Third, this industry is resilient. I drew a
4 dotted arrow on the value curve there because we don't
5 have figures for 2011. But if you draw the line to
6 current spot prices, you get the \$880 a ton. Raw
7 materials prices may be high, but they're not that
8 high. This is an industry that can set price in the
9 market. It is not vulnerable. That concludes our
10 presentation for Ford.

11 MR. DUNN: Good afternoon. My name is Chris
12 Dunn and I represent Usinas, a Brazilian producer of
13 subject merchandise. But, I'm speaking now on behalf
14 of the joint foreign producers appearing here this
15 afternoon. My goal is to give the Commission an
16 overview of the conditions of the hot-rolled steel
17 industry in the U.S. and in the subject countries
18 today and then I'll turn the microphone over to
19 representatives of the Brazilian and Japanese
20 Respondents, so you can hear firsthand what their
21 likely participation will be in the U.S. market in the
22 foreseeable future.

23 You heard a great deal of testimony this
24 morning implying or stating that the U.S. industry and
25 American and global steel markets today are just as

1 they were in 1998, when the investigation in this case
2 was initiated, or as they were during the Commission's
3 last sunset review. In our opinion, nothing can be
4 further from the truth.

5 There are two profound differences between
6 the situation confronted by the Commission in the
7 original investigation and in the first review, and
8 the situation we see today. First, the domestic
9 industry is far stronger than it was in 1999 or 2004.
10 Second, the industries in the three countries subject
11 to the order have neither the ability, nor any
12 incentive to return to the U.S. market in a
13 significant way.

14 The U.S. industry today is completely
15 different from the high-cost, over-extended, aging
16 industry that existed in 1999. As Louis Schorsch, the
17 CEO of ArcelorMittal's flat products Americas division
18 put it, years ago, you had many more desperate players
19 that were really kind of living hand to mouth, trying
20 to manage for cash. As you heard from Mr. McConnell,
21 there were too many producers with very high fixed
22 costs that virtually forced them to keep producing as
23 much steel as they could, even when the market demand
24 was not there for the steel. Their need to produce at
25 almost any price drove the price of hot-rolled steel

1 to the floor.

2 The domestic industry, at that time, was
3 also experiencing fierce intra-industry competition
4 between electrical arc furnace, EAF, producers and
5 integrated blast furnace producers. The cost
6 advantage enjoyed by domestic EAF producers was so
7 great, that they were able to turn a profit when
8 integrated producers couldn't. Mini-mills were in
9 double digit margins where their integrated
10 competitors operated at a loss.

11 The U.S. industry today could not be more
12 different from what it was then. To begin with, the
13 number of U.S. producers today is half what it was.
14 This industry consolidation has involved not just the
15 reduction of the number of companies, but the closing
16 of many old and inefficient production facilities and
17 the upgrading or addition of other facilities. That
18 process continues today with mills like Thyssen Krupp
19 USA coming on line and new mills projected from SDI
20 and Nucor.

21 You heard from Mr. McConnell how the
22 domestic industry vastly reduced its fixed costs.
23 There's another aspect of this change, however, that
24 bears emphasis. At the same time that large
25 integrated mills were reducing their fixed costs,

1 their domestic competitors, who were EAF producers,
2 saw their variable costs rise dramatically. Over the
3 past several years, the cost of scrap, which is a
4 basic raw material for electric arc furnaces, has
5 risen much faster than the cost of iron ore, the basic
6 raw material for integrated producers. As a
7 consequence, EAF producers no longer operate with the
8 variable cost cushion they had in earlier years.
9 Meanwhile, with their own fixed cost now under better
10 control, the integrated mills no longer seek to
11 produce the last ton at any cost.

12 The result of all of these fundamental
13 structural changes in the U.S. industry is that the
14 domestic industry is far more efficient, profitable,
15 and flexible than it was in 1999. The difference is
16 night and day, as this chart shows. This is clearly a
17 much stronger industry than the one that existed
18 previously. It is an industry that no longer needs to
19 produce flat out, in order to turn a profit. It is an
20 industry that can produce high-quality steel
21 efficiently and profitably, even in market downturns,
22 and an industry that looks to be more profitable in
23 the near future.

24 With respect to the industry's near term
25 profitability, let me point out some interesting

1 facts. The domestic industry this morning made much
2 of the fact that they're still producing at less than
3 70 percent of capacity; yet, in the past four months,
4 the price of steel has risen more than 50 percent.
5 This suggests that the industry's utilization of its
6 effective capacity in economic sense is much higher
7 than the 70 percent figures you see. That's why the
8 industry may technically have 30 percent unused
9 capacity, a considerable portion of that unused
10 capacity may be hold, inefficient, and economically
11 unproductive facilities that may be too costly to
12 bring back on line. While some additional capacity
13 has been brought back on line and is being brought
14 back on line since 2010, a large portion of that
15 unused capacity may not be economic to bring back yet,
16 so that producers may be operating closer to their
17 economic capacity than the numbers in the staff report
18 suggest.

19 This conclusion, as suggested by the
20 statement of John Surma, CEO of U.S. Steel,
21 effectively, all of our space is spoken for. The fact
22 that some portion of existing unused capacity may not
23 be worth bringing back also cast light on the domestic
24 industry's statement this morning about the new
25 domestic capacity scheduled to begin production in the

1 next two years. What, in fact, is occurring is not
2 new capacity being added on top of unused capacity,
3 but rather new efficient capacity replacing old
4 inefficient facilities. This change, far from being a
5 cause of worry, is actually part of the new dynamism
6 of the domestic industry.

7 The domestic industry, after all, is sitting
8 on a huge amount of cash. During the five years since
9 the last review, the domestic industry - during the
10 first five years, the domestic industry's cash flow
11 was 2.3 billion - 2.4 billion. In the five years
12 since that review, cash flow was almost 10 times
13 larger, at 22 billion. If you allow for all of their
14 expenses, including significant capital expenditures
15 and depreciation, since 2005, the domestic industry is
16 still sitting on almost 7.4 billion, that's billion
17 with a "b," dollars of excess cash, of available cash.
18 This is an industry that has the profits to upgrade
19 its facilities even further, in order to compete at a
20 global level.

21 The domestic industry, in short, has become
22 and is continuing to become a stronger, more
23 efficient, more profitable industry than it was in
24 1999. Having enjoyed remarkable profitability from
25 2006 to 2008, it was able to weather the most serious

1 economic downturn since the Great Depression and
2 return to profitability in 2010 after only one year of
3 losses. It now stands poised to do even better in the
4 near future.

5 It's not only the U.S. industry that is
6 remarkably different from the industry that the
7 Commission confronted in 1999. The world economic
8 situation is also vastly different. In fact, it's
9 almost the reverse of the situation 10 years ago.
10 When the Commission conducted its original
11 investigation, subject producers were facing a severe
12 economic downturn in the Asian economies that caused
13 their industrial production and prices to plummet.
14 Even economies such as Brazil were struggling under
15 the effects of what was then called "the Asian
16 contagion." At the same time, the U.S. economy was
17 enjoying its Goldilocks period. That discordance
18 between the U.S. and other markets made the U.S.
19 market an attractive outlet for subject producers, who
20 found domestic and regional markets under severe
21 stress.

22 Global economic conditions are now
23 completely different. While the U.S. economy is
24 beginning to climb out of the great recession, Asian
25 economies have been back on a track of robust growth

1 for well over a year, so that inflation, not
2 recession, is their primary cause of concern. Subject
3 producers have much more attractive markets close to
4 home than in the United States. They've become
5 overwhelmingly dedicated to their home and regional
6 markets, with little incentive to resume exports to
7 the United States. Each one of these countries is a
8 little different, but none has any inclination to
9 export significant quantities of hot-rolled steel to
10 the U.S. Let me now turn the microphone over to them
11 to detail their individual situation.

12 MR. STOEL: Good afternoon, Madam Chairman
13 and Members of the Commission. My name is Jonathan
14 Stoel with Hogan Lovells. I am here today to discuss
15 three Brazil specific facts, demonstrating that the
16 Commission should find that both imports from Brazil
17 cannot be accumulated with imports from Japan and
18 Russia, and that imports from Brazil would not add
19 adverse volume or price effects on the United States
20 domestic industry.

21 First, I want to emphasize that imports from
22 Brazil have always played an insignificant role in the
23 United States market. In fact, even during the
24 original period of investigation, as the United States
25 became "a safe haven" for global steel exports,

1 Brazilian imports at their peak amounted to only 0.6
2 percent of total U.S. apparent consumption.

3 The Brazilian exporters have been even less
4 active in the United States market since 2001. This
5 lack of interest in the U.S. market is not because of
6 the restraints imposed by the AD&C measures.

7 As the prehearing staff confirms the AD&C
8 deposit requirements for all three Brazilian producers
9 are very moderate. Accordingly, comparable subject
10 imports from the Czech Republic and South Africa in
11 the 2006 Seamless Pipes Sunset Review, imports from
12 Brazil have never been a significant force in the U.S.
13 market, and are unlikely to become one if the orders
14 are revoked.

15 Second, while the Brazilian producers have
16 as the Commission itself observed in 2005, never been
17 particularly export oriented. They have become even
18 less so over the past five years, as Brazilian
19 producers have become even more focused on their
20 domestic market.

21 As Mr. Alvarez will explain in greater
22 detail, the Brazilian economy is booming, notwithstanding
23 very strong demand and higher prices in Brazil for
24 hot-rolled steel. Brazilian producers today are
25 operating flat out as they strive to meet the

1 increasing requirements for hot-rolled steel from
2 their domestic customers.

3 And further strengthening of the Brazilian
4 economy and the continued significant appreciation of
5 the Brazilian Real against the U.S. dollar, an
6 astonishing 136 percent over the past two years, have
7 caused Brazilian producers to become even less export
8 oriented than they were during the Commission's first
9 Sunset review in 2005.

10 The record of evidence in this Review thus
11 demonstrates that the Brazilian industry today is
12 increasingly disinterested in exporting hot-rolled
13 steel to the U.S., or to any other market.

14 Finally, as in the Commission's 2007 hot-
15 rolled steel Sunset Review, the Commission must
16 confirm here the role of hot-rolled steel in the
17 global field market, and its impact on the U.S.
18 market.

19 Usiminas is one of the largest Brazilian
20 producers of hot-rolled steel. Brazil also is
21 affiliated with ArcelorMittal USA, and thus as the
22 Commission explained in its 2007 Sunset Review, and
23 Mr. Rosenthal stated it again this morning, will not
24 ship hot-rolled steel to the U.S. market on terms that
25 would harm the U.S. industry.

1 The Commission must examine these facts and
2 recognize if they further support a negative
3 determination. The Brazilian hot-rolled steel
4 industry is unlikely to play a major role in the U.S.
5 market, or to act contrary to the interests of the
6 U.S. industry. Thank you for your attention to my
7 statement. Mr. Alvarez will not provide further
8 insights on the Brazilian market.

9 MR. ALVAREZ: Good afternoon, Madam
10 Chairman, and Members of the Commission. My name is
11 Manuel Raimundez Alvarez, and I am the senior manager
12 at Companhia Siderurgica Nacional, or CSN, in Brazil.

13 I have worked for more than 30 years in the
14 steel industry in Brazil. In my direct testimony this
15 afternoon, I will make three principal mutual
16 reinforcing points regarding the market for hot-rolled
17 steel from Brazil, and the lack of interest from
18 Brazilian producers in exporting to the U.S. market.

19 First, it is important for the Commission to
20 recognize that the Brazilian economy and
21 correspondingly the demand for hot-rolled steel is
22 very strong today. Brazil's economy grew on average
23 by 3.64 percent annually during the 2005 and 2009
24 period. Moreover, Brazil recovered very quickly from
25 the financial crisis and recorded an astonishing 7.5

1 percent growth in 2010. This economic strength has
2 continued into 2011. Brazil's apparent consumption of
3 hot-rolled steel has risen historically and presently
4 double at the rate of the economic growth.

5 Apparent consumption increased hugely in
6 2010 due to the expansions in consumer goods
7 production growth. As a result, CSN has had multiple
8 large volume orders in 2010 from its Brazilian
9 customers from hot-rolled steel.

10 In fact, the domestic market in Brazil has
11 been so hot that CSN only exported a total of 43
12 thousand tons of hot-rolled steel in 2010. CSN
13 forecasts economic growth in Brazil of more than 4
14 percent for the next few years.

15 Continued economic conditions in Brazil will
16 produce significant new interest in other projects due
17 in part to the 2014 World Cup and 2016 Olympic Games,
18 and increased automobile manufacturing, and enhanced
19 consumer goods production.

20 CSN anticipates that hot-rolled steel demand
21 in Brazil will increase significantly over the next
22 two years. This will serve to reduce Brazilian
23 inventories even further, and to maintain the high
24 capacity utilization rates of Brazilian mills, even as
25 new production capacity is brought on-line.

1 Second, the Brazilian market for hot-rolled
2 steel continues to have significantly higher prices
3 than other major global markets. Importantly, for
4 this proceeding, the price of hot-rolled steel in
5 Brazil has been historically and in recent years
6 significantly higher per metric ton than the price
7 here in the United States.

8 We have provided charts illustrating this in
9 our briefs to the Commission. Moreover, the major
10 Brazilian steel producers, such as CSN, have recently
11 raised their domestic price for hot-rolled steel by
12 between 5 and 12 percent.

13 Finally, Brazilian producers currently have
14 no capacity or economic incentives to export hot-
15 rolled steel to the United States. Brazilian mills
16 today are operating at very high capacity utilization
17 rates.

18 Moreover, even if there were a viability
19 capacity, Brazil's high domestic price would serve as
20 a major disincentive for Brazilian producers to export
21 hot-rolled steel at all. Brazilian producers are
22 deeply committed to serving their growing domestic
23 market, and meeting the needs of their Brazilian
24 customers.

25 I can tell you here today that even if I had

1 a major order for hot-rolled steel from a U.S.
2 customer, I would not be able to fill it. My
3 management would inform me that CSN has more
4 important, higher paying, customers in Brazil, and
5 that the company's priority is to meet their
6 significant needs.

7 This is the reason that Brazilian exports of
8 hot-rolled steel not only to the United States, but to
9 all markets, has declined significantly over the past
10 decade. In fact, the reaction of the senior
11 management at CSN has reduced it by half the number of
12 employees needed in the steel export department.

13 The fact is that CSN and the other major
14 Brazilian producers have never viewed the U.S. market
15 as a major market for exports, and the revocation of
16 the orders would not change our strategies. Thank you
17 for your attention to my testimony. I would be
18 pleased to answer questions.

19 MR. LEWIS: Once again, good afternoon,
20 Madam Chairman, and Commissioners, and Commission
21 Staff. My name is Craig Lewis with the law firm of
22 Hogan Lovells. I would like to switch gears here for
23 a moment and take the opportunity to briefly address
24 Russian imports.

25 I am obviously not here today as a

1 representative of the Russian producers, but I have
2 reviewed the prehearing briefs submitted by the
3 Russian producers, and on behalf of the Joint
4 Respondents would like to highlight for the
5 Commission's consideration a few critical points
6 raised in that submission.

7 First, the Russian economy has substantially
8 transformed since the original investigation.
9 Whereas, Russia was in considerable economic turmoil
10 in 1998, the Russian economy has stabilized and
11 domestic demand for steel has taken off.

12 With growth rates in recent years similar to
13 those in China, demand for hot-rolled steel has
14 increased in the automotive and energy sectors, in
15 heavy machinery, and in white goods. Demand has been
16 further stimulated by large scale infrastructure
17 spending.

18 Demand in all these sectors has also caused
19 Russian producers to devote more of their hot-rolled
20 capacity to captive downstream uses in manufacturing
21 cold-rolled and galvanized steel. As a result prices
22 in Russia for hot-rolled are currently strong and
23 rising.

24 Second, as a predictable result of the
25 expansion of domestic demand, the Russian industry's

1 export orientation has significantly declined. In
2 1999, exports accounted for close to 40 percent of
3 Russia's producers shipments.

4 During the review period that figure in all
5 but one year was in the range of 24 to 31 percent.
6 Third, Russian exports face less trade measures that
7 inhibit exports to third-countries. Nine countries
8 had measures on Russian hot-rolled steel in 1999, as
9 compared to only four countries in 2010.

10 Moreover, Russian exports reflect
11 established commitments in key markets outside of the
12 United States, including in particular the European
13 Union. It bears noting, moreover, that while Russian
14 exports to the EU are currently subject to quotas,
15 those quotas will terminate when Russia joins the WTO.

16 In contrast, Russian exporters face lower
17 prices, higher transportation costs, and unfavorable
18 dollar-ruble exchange rates for exports to the United
19 States.

20 Fourth, and importantly, Severstal and NLMK
21 have substantial U.S. hot-rolled production operations
22 that they would not wish to jeopardize through
23 aggressive export of the same products to the United
24 States.

25 According to the Russian brief, NLMK

1 invested \$400 million in beta steel in 2008, and
2 supplies that mill with its own slab. Severstal
3 invested several billion dollars in U.S. hot-rolled
4 capacity in 2008, and although Severstal recently sold
5 its interest in three of its mills, Severstal remains
6 committed, and in fact even more committed than
7 before, to making its U.S. investments work.

8 Finally, but not least of all, Russian
9 producers have shipped considerably below the quota
10 established under the anti-dumping suspension
11 agreement, even though U.S. market prices in the vast
12 majority of corridors have been higher than the
13 suspension agreement referenced prices, and this is
14 demonstrated in Exhibit 2 of the Russian producers'
15 brief.

16 This last fact clearly demonstrates that
17 revocation of the order is irrelevant to Russian
18 shipment patterns, and is unlikely to have any effect
19 on future Russian imports. Thank you very much.

20 MR. AOYAMA: Good afternoon. My name is
21 Takeo Aoyama, and I am the Executive Vice President
22 and General Manager of the Chicago Office of the
23 Nippon Steel U.S.A. I appreciate the opportunity to
24 appear before you today and provide some comments on
25 behalf of Nippon Steel.

1 I do also appreciate all the comments,
2 sympathy, and actual help extended to the recent
3 tragedy happening in Japan. Thank you very much. I
4 would like to start my testimony by telling you a
5 little bit about Nippon Steel's export strategy for
6 hot-rolled steel, and how it was developed.

7 In the year 2000, I was appointed as a Group
8 Manager for hot-rolled steel exports at Nippon Steel.
9 We saw that demand in Asia for cold-rolled and cold-
10 rolled resistant steel, and pipe perdex was growing
11 very quickly, and rerollers and pipe producers in Asia
12 were adding capacity in response to this demand.

13 These downstream manufacturers are the
14 customers who do not have their own steel making
15 capacities or hot-rolled mills, such as they need an
16 external source of hot-rolled steel. Our strategy has
17 focused on supplying hot-rolled steel to these local
18 processors as a substrate so that they can produce
19 high quality cold-rolled, cold-rolled resistant steel
20 and pipe products.

21 We have worked very hard to set up stable,
22 long term relationships with these local producers.
23 In some cases, we have invested in joint ventures, or
24 set up memorandums of understanding with separate
25 commitments for hot-rolled steel.

1 I understand that the details in these
2 investments were included in our prehearing brief. In
3 other cases, we have worked with local processors to
4 solve technical issues and to improve the quality of
5 their downstream products.

6 Our supply of hot-rolled steel as a
7 substrate to these downstream manufacturers is a kind
8 of technology transfer, which allows them to make
9 better products and serve more customers than they
10 could by purchasing hot-rolled steel locally.

11 We have seen that as Japanese steel
12 producers have followed a similar strategy. In
13 addition, we supply high quality hot-rolled bands to
14 the automotive industry customers throughout Asia.
15 These are high tense textile grade that the old
16 producers are not able to serve from local producers.

17 Nippon Steel has also set up private centers
18 and other downstream processing facilities in China
19 and Southeast Asia to serve these customers. I was
20 personally involved in these efforts from the years of
21 2003 to 2005 as a Group Manager at Nippon Steel's
22 marketing and strategy department.

23 We recognized that many of our traditional
24 old industry customers in Japan were expanding their
25 operations in China and throughout Asia, and that we

1 could provide better service to them by operating
2 locally and through partnerships with local steel
3 producers.

4 This strategy has been successful for Nippon
5 Steel. Our hot-rolled steel exports to Asia have
6 grown a lot over the last decade, and exports to Asia
7 have consistently made up about 80 percent of our
8 total exports of hot-rolled steel.

9 Because of the investment that we have made
10 in Asia, and as the demand grows that we see
11 continuing in Asia, I do not expect that our strategy
12 will change in the future.

13 Let me also briefly address our thinking
14 about the U.S. market. At Nippon Steel, our main goal
15 is always to make sure that our customers anywhere in
16 the world are able to get high quality steel products
17 that they need to support their operations.

18 So, it is very important to us to support
19 customers like Toyota, Honda, or Ford, in the U.S.
20 market. In the United States, we mostly do that
21 through our participation in joint ventures with
22 specifically our IN Tech cold-rolled mill, and IN
23 cold-galvanizing line in Indiana.

24 High quality hot-rolled substrate for those
25 operations can be supplied locally, and so we see no

1 need for direct exports from Japan. If the anti-
2 dumping order on Japan is revoked, our direct shipment
3 from Japan would likely continue to be limited to
4 special quality grades for automotive applications.

5 We would not expect any significant increase
6 in our export volume because the demand in the U.S.
7 market for these products is rather limited. The
8 market for commodity grade hot-rolled steel here is
9 also not especially attractive for us.

10 It is important for you to understand that
11 our entire vision strategy at Nippon Steel is built on
12 differentiation. We want to sell our products for
13 applications where we can capture the value of our
14 technology, not just in the United States, but in
15 Japan and around the world.

16 Our focus is not on commodity grade. Our
17 long term goal is to continue to increase the
18 proportion of our business that is high quality steel
19 for high value added end-users. This base approach
20 does not depend on whether the order is continued or
21 revoked.

22 So we do not think that revocation would
23 have much effect on our business. The main benefits
24 that we see to the revocation is that our customers
25 would no longer be subject to duties on the specialty

1 of hot-rolled product that they need to import from
2 Japan. Thank you for your attention, and I would be
3 pleased to respond to any questions of you.

4 MR. WOOD: Good afternoon, Members of the
5 Commission. for the record, I am Chris Wood, and I am
6 counsel for the Japanese Respondents. I would like to
7 take just a few minutes to address the claims that the
8 domestic industry has made concerning the likely
9 effects of revocation of the order on hot-rolled steel
10 from Japan.

11 For those of you who were here for the
12 Corrosion Resistant Steel Sunset Review Hearing in
13 October of 2006, the domestic industry claims on Japan
14 should sound very familiar. The domestic industry
15 raised virtually all of the same arguments in that
16 Sunset Review as reasons to keep the order in place.

17 You can literally run down the list and
18 check them off. Claims of excess capacity in Japan,
19 and arguments that new capacity in Asia will displace
20 Japanese exports. Arguments that high prices in the
21 U.S. will draw imports in, and claims that revoking
22 the order will lead to a replay of pre-order
23 conditions, ignoring the huge changes that have
24 occurred over the last 10 plus years.

25 Our response to those arguments in the

1 Corrosion Resistant Steel case was very consistent
2 with the points that you just heard from Mr. Aoyama.
3 We showed that the industry in Japan is focused on its
4 home and regional export markets, that there are long
5 term investments and other relationships supporting
6 those trends, and that a big increase in direct
7 exports to the United States was just not in the
8 cards.

9 I bring up this history because we have a
10 tremendous natural experiment here. In January of
11 2007 the Commission voted to revoke the order on
12 corrosion resistant steel from Japan. We now have the
13 benefit of hindsight, more than four years of
14 experience, to tell us whether the Japanese producers
15 were correct in predicting that their focus would
16 remain in Asia, or whether the domestic industry was
17 right in claiming that enormous volumes of imports
18 from Japan would follow revocation.

19 In fact, Japanese imports have remained at
20 very low levels since the corrosion resistant steel
21 order was revoked. We put the data in Exhibit 9 of
22 our prehearing brief. Imports of corrosion resistant
23 steel from Japan totaled 28 thousand tons in 2006
24 before the order was revoked, and have averaged around
25 35 thousand tons per year since 2007.

1 In a 20 million ton per year market, these
2 quantities are trivial. In short, the order was
3 revoked and the sky didn't fall. The predictions that
4 imports from Japan would increase greatly did not
5 happen.

6 The real predicted value of the arguments
7 made by the domestic industry, the same arguments that
8 you heard in the Sunset Review this morning, was zero.
9 The Japanese Respondents continue to sell corrosion
10 resistant steel exactly as they did before, with
11 shipments going mainly to customers in the home mark
12 in Asia, and sales in the United States limited to
13 small volumes of specialty products.

14 We would respectfully suggest that
15 revocation of the order on hot-rolled steel from Japan
16 will likely have the same inconsequential effect on
17 the U.S. market as did the Commission's 2007 action
18 revoking the order on corrosion resistant steel from
19 Japan.

20 The facts are that the Japanese industry is
21 operating at a very high level of capacity
22 utilization, well over 90 percent, and well over 95
23 percent of all the hot-rolled steel produced in Japan
24 is consumed either in Japan or Asia, and this trend
25 has been consistent for years.

1 Asia is already the center of world demand
2 for hot-rolled steel, and demand is predicted to
3 continue to grow much faster in Asia than in North
4 America for the foreseeable future. And as Mr. Aoyama
5 explained, Japanese producers have made significant
6 long term investments in Asia in business models that
7 use hot-rolled steel supplied from Japan as an
8 intermediate material for the production of downstream
9 flat rolled and pipe products.

10 To sum up, both recent history and the
11 record in this Sunset Review should lead you to
12 conclude that revoking the order on hot-rolled steel
13 from Japan is not likely to have any adverse effect on
14 the domestic industry. I appreciate your attention
15 and would be happy to respond to any questions that
16 you may have. thank you.

17 CHAIRPERSON OKUN: Does that complete the
18 testimony for this panel? All right. Well, thank
19 you, and before we begin our questions, let me take
20 this opportunity to thank all of you for being here,
21 and for the industry witnesses, and producers who were
22 able to travel, and take time away from their
23 business, we very much appreciate the effort that you
24 made to be here.

25 Mr. Aoyama, to you, I take it that you are

1 in the Chicago office, but with everything that has
2 gone on in Japan, and with the earthquake and tsunami,
3 and the nuclear reactor crisis, I am sure that it is a
4 difficult time for your company. So we appreciate
5 your effort to be here as well.

6 And with that, I will begin the questions
7 this afternoon. If I could just ask you to repeat
8 your name for the benefit of the court-reporter since
9 we can't see everybody's name plates out there.

10 And, Mr. Aoyama, I think I will start with
11 you. I very much appreciate both your appearance here
12 today, and the specific information that you provided
13 in your questionnaire, and the business and other
14 kinds of information that you submitted.

15 One question, or the Petitioners this
16 morning had indicated that the joint ventures that
17 were discussed in the brief for the Japanese producers
18 often times were technology joint ventures, and
19 therefore really didn't indicate that there was
20 product being used.

21 In other words, in this case, I think the
22 Chinese was the example that they used. That the
23 Chinese would be providing the actual hot-rolled. So
24 I wanted to give you an opportunity to respond with
25 the specifics for your company, and to the extent that

1 you can talk about them here, and if not, maybe
2 further information in the brief, Mr. Wood.

3 But, Mr. Aoyama, can you talk about joint
4 ventures, and where you have technology ones, versus
5 others?

6 MR. AOYAMA: Even though our joint ventures
7 in Asia are with technically driven joint ventures,
8 but at the same time, we have a long term commitment
9 to supply our hot-rolled coil as a substrate because
10 some of that high-end, high quality coil, cannot be
11 produced even in the top class, for example, of
12 Chinese mills.

13 So in that case, we supplied our hot-rolled
14 to produce a high-end product in joint ventures, and
15 so in such a way that our joint venture is not only
16 technology driven, but also supported by our stable
17 supply of high quality of hot-rolled.

18 MR. WOOD: And, Commissioner Okun, this is
19 Chris Wood. If I could just supplement that by saying
20 that as you alluded to, we did put specific details in
21 Exhibit 3 of our prehearing brief, which includes the
22 supply commitments on hot-rolled steel.

23 And it is not surprising, but some of the
24 representations that you heard this morning are just
25 factually incorrect with respect to those.

1 CHAIRPERSON OKUN: And, Mr. Wood, do you
2 think that you will be able to get any more specifics
3 for the other producers that you represent?

4 MR. WOOD: We will certainly try,
5 Commissioner Okun. We will do the best that we can to
6 supplement that information in a post-hearing brief,
7 but one other last point that I wanted to make, and to
8 supplement what Mr. Aoyama said, is that I think it is
9 important to consider the entirety of the relationship
10 with these purchasers in Asia.

11 If Nippon Steel or the other Japanese
12 producers are investing and sending technical
13 personnel over there, and giving technical assistance,
14 even if that is not a financial investment, it is an
15 investment in the relationship, and that facilitates
16 the sort of long-term commitments, and the stickiness
17 of these trade patterns that we mentioned in our
18 brief.

19 CHAIRPERSON OKUN: Okay. And then another
20 question for you, Mr. Aoyama. In discussing the
21 likely effects if the order was listed of imports, and
22 you talked about the relationship with the U.S., and
23 with the auto companies in the United States.

24 And I wondered if you could give any more
25 information that would support your statement that the

1 product that would come in post-order would still be
2 with high quality limited product, as opposed to
3 broader products which the record would indicate was
4 brought in during the original investigation? Is that
5 clear, or do I have to restate that, Mr. Wood?

6 MR. AOYAMA: The major reason why we have or
7 why we see no possibility to increase our directives
8 from Japan to automotive customers as I mentioned, we
9 have already had joint ventures in the United States
10 to serve our customers in the United States.

11 Our operations of joint ventures are already
12 way back to 20 years ago. We have a 20 year history
13 of operating in the United States, and speaking about
14 the cold-rolled and corrosion-resistant steel,
15 especially for the usage of automotive customers.

16 So even if the hot-rolled dumping duty is
17 revoked, I see that the only possibility for us is to
18 export from Japan is limited to the high strength
19 steel, which literally is difficult to produce in
20 domestic industries, and actually even now with the
21 dumping duties, some customers are importing from us
22 due to the scarcity of the availability in the United
23 States market.

24 CHAIRPERSON OKUN: Okay. Any information
25 that you could provide post-hearing with respect to

1 that particular issue of the limited supply of the
2 types of product that you are bringing in currently
3 would be helpful.

4 Before I turn to our representatives from
5 Brazil, Mr. Vandevert, I wanted to ask you if you
6 could comment on demand patterns in the United States
7 for automobiles. I know this morning that we had
8 talked with the panel this morning about a market they
9 used to have of about 17 million units, and that now
10 we are talking about 13 or 14, and I wanted to know
11 what projections you see for the U.S. market?

12 MR. VANDEVERT: Well, first of all, Ford
13 itself limits its projections to one year, and so I
14 can't speak directly to longer term projections.
15 However, the range is fairly consistent.
16 I would say we are looking for this year in the United
17 States for industry sales to be in the range of 13 to
18 13.5 million.

19 And so a little bit better than our steel
20 suppliers had indicated, but I think fairly close.

21 CHAIRPERSON OKUN: And then you had focused
22 in your testimony on the importance of export markets
23 to Ford's business strategy, and I am not sure, as I
24 actually didn't see one thing you submitted, but if
25 you have not already submitted a business plan or

1 projections for export markets, it would be very
2 helpful to see that, and what Ford anticipates doing
3 in the different markets in the time period.

4 MR. VANDEVERT: We will do that.

5 CHAIRPERSON OKUN: Okay.

6 MR. MCCONNELL: Commissioner Okun, if I
7 could just add one point to that. There was also a
8 suggestion on how to translate that into actual steel
9 demand, and in particular a suggestion that at a time
10 of high gas prices there might be some tendency to
11 consume less steel per automotive unit.

12 And we just wanted to make sure that we got
13 on the record on that, that just because someone is
14 concerned about fuel economy doesn't mean that they
15 are going to go to a whole different class of vehicle,
16 and to go from an F-150 to a Ford Focus.

17 And, in fact, the trend that we are more
18 likely to see is that a consumer identifies the type
19 of vehicle that they want to buy, and then they look
20 for the fuel economy leader in that type. So I think
21 that we don't see that as significantly affecting
22 steel demand. We think that steel demand is going to
23 be driven by the number of units rather than by that
24 force.

25 CHAIRPERSON OKUN: All right. If there is

1 anything from the industry or publications that you
2 could place in the record, that would be helpful,
3 because I do remember this discussion coming up in one
4 of the cases in prior years about auto demand, and how
5 steel prices impact that.

6 So I am interested in seeing that. And then
7 for Mr. Alvarez, in response to questions about
8 whether Brazil has the incentive to change markets,
9 the Petitioners had pointed out that there are
10 Brazilian exports to India and Vietnam, and that they
11 have surged at different times during the period.

12 And that would indicate that the purchaser
13 market is not what drives it if your home market isn't
14 preventing you from exporting. I was wondering if you
15 could comment on that?

16 MR. ALVAREZ: Well, I don't know about the
17 exports to India. CSN is not responsible for that and
18 we are not exporting, even for India. But it is not
19 the objective of this Commission, but we only export
20 some tin plates, and not hot-rolled coils.
21 Maybe is it is from others in Brazil.

22 CHAIRPERSON OKUN: Okay. Well, counsel, if
23 there is anything that can be -- if you can discuss
24 that as it relates to your argument with regard to
25 whether trade patterns would shift upon revocation, I

1 would appreciate seeing that.

2 And then I know that my time is about to run
3 out, but I don't know if there is any more
4 specificity, or any more detailed information that you
5 could provide about the demand that is expected to be
6 associated with the steel demand to be associated with
7 the Olympics, or with the World Cup.

8 I know that it has been cited as one of the
9 reasons for the Brazilian home market is going to
10 continue to grow, but I didn't see too much
11 specificity in the briefs, and I don't know if there
12 is something else that might be available.

13 MR. STOEL: Chairman Okun, Jonathan Stoel.
14 We will certainly do that, and I just wanted to point
15 out that I think that the main point that we made was
16 that with GDP growth of 4 to 5 percent each year, and
17 as Mr. Alvarez's testimony pointed out, that really
18 translated into double the growth in steel
19 consumption.

20 And that is where we see the growth coming
21 from the Olympics and from the World Cup, and are just
22 examples of how significant that demand is going to
23 be, but we will certainly look into that for you.

24 CHAIRPERSON OKUN: Okay. I appreciate that.

25 MR. DUNN: Chairman Okun, just to complete

1 that thought for Usiminas, we don't have any
2 projection of how much precisely will be to each one
3 of those, but we do have -- we had given the
4 Commission our business plan for the next five years,
5 which shows an increase, or a projected increase in
6 hot-rolled demand of 6 percent a year, and that takes
7 those into account.

8 CHAIRPERSON OKUN: And thank you, and in the
9 beginning of my remarks, I did note that I very much
10 appreciated those business plans that were produced in
11 response to the questionnaires, and I had a chance to
12 look at those, and it was very helpful information for
13 purposes of filling out the record. And with that, I
14 will turn to Vice Chairman Williamson.

15 VICE CHAIRMAN WILLIAMSON: Thank you, Madam
16 Chairman, and I, too, want to express my appreciation
17 to the witnesses for coming today. Mr. McConnell, in
18 your chart one, I was wondering if you could add the
19 cost of raw materials.

20 A couple of times, you did point to the high
21 cost of raw materials at the end, in the latter years,
22 but it would be interesting to sort of see how that
23 tracked for the whole period.

24 MR. MCCONNELL: I would be happy to give it
25 a try. We are a little bit prohibited because we

1 don't have access to all of the data in the record on
2 raw materials. There are a couple of charts in the
3 public version, but as I sort of looked to prepare
4 this, there were some issues that we could not deal
5 with because the data in the staff report weren't
6 available in the public record. But we would be happy
7 to give it a try.

8 COMMISSIONER WILLIAMSON: Okay. We would
9 appreciate that, and any comments from what you know
10 about what is going on.

11 MR. MCCULLOUGH: The other thing,
12 Commissioner Williamson, is --

13 VICE CHAIRMAN WILLIAMSON: Sure. Go ahead.

14 MR. MCCULLOUGH: Matt McCullough. We heard
15 a lot today about raw material prices and the industry
16 concern about covering its raw material costs, but I
17 think that there is plenty of that in the record, and
18 certainly in Figure 17 and Figure 18 of our brief, the
19 Joint Respondents' brief, on scrap costs, I think it
20 is quite evident that this industry has been more than
21 capable of covering in particular its scrap costs.

22 In fact, when scrap costs increase, the
23 domestic industry tends to raise prices well in excess
24 of that increase and actually increases its profit per
25 ton. You can see that in the basic hot- rolled

1 prices, and scrap price data. But you can also see it
2 in the investor presentations of new core steel, and
3 that is reflected in Figure 17 and Figure 18.

4 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
5 for that.

6 MR. MCCONNELL: Actually, if I could,
7 Commissioner Williamson, just amplify one other point
8 on that since Matt raised it. I mean, the issue isn't
9 the cost. The issue is the net that they can make on
10 their raw materials costs.

11 And I probably should address that. I mean,
12 your staff has found, I think, quite accurately that
13 the demand for hot-rolled steel is inelastic. What
14 that means is that customers need to have the steel,
15 and they are going to pay high prices if that is what
16 they have to do to get it.

17 We are probably the best example of that
18 that you are going to see, and we have to keep our
19 plants running, and so if the price gets high, we are
20 going to pay that price if we have to, to keep the
21 plants running.

22 And I think that what you have seen here,
23 and I will undertake that comparison that you suggest,
24 but I think what you have seen here is that since the
25 restructuring the steel industry has protected itself,

1 and actually as Mr. Blume said this morning, they have
2 backed off from their own long term exposure.

3 They have held us to short term contracts so
4 that they can pass those costs through, and I think
5 that if I can make these data work, that is what you
6 are going to see.

7 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
8 for that clarification. I was wondering. Do you
9 consider the workers in the industry as part of the
10 industry? Are the workers part of the industry?

11 MR. VANDEVERT: In the automotive industry?

12 VICE CHAIRMAN WILLIAMSON: No, I'm sorry, in
13 the steel industry.

14 MR. VANDEVERT: I would say, yes, of course,
15 just as we consider the workers in the automotive
16 industry part of -- I mean, Mr. Ford, our chairman,
17 seriously and consistently refers to at least the Ford
18 Motor Company as a truly family business, and he
19 regards all of the employees down to the line as part
20 of his working family.

21 VICE CHAIRMAN WILLIAMSON: Okay. The reason
22 that I asked that is because in Mr. McConnell's
23 presentation about the profits to the companies, and
24 how as they have consolidated they have been able to
25 basically do better on profits through the recession

1 and all.

2 But if you look at the workers, of course, I
3 think employment has fallen about 23 percent. So it
4 has fallen much greater than did demand, and probably
5 earnings, and so I was wondering is there an impact
6 there that we should take into account in looking at
7 whether or not the industry -- well, how vulnerable is
8 the industry at this time.

9 MR. MCCONNELL: Well, I think a couple of
10 points on that. I think that you will find that in
11 our industry that we have lost a lot of workers as
12 well, and we had to consolidate dramatically within
13 our own operations.

14 If you look at the labor productivity in
15 autos, I suspect that it is very high. I have not
16 looked at those numbers, but certainly Paul can talk
17 about a number of his friends who aren't working there
18 anymore.

19 In terms of the effect of the restructuring
20 on labor, I think you heard some very interesting
21 testimony on that this morning, and what I heard was
22 that the unions were agreeing to concessions, and
23 basically recognizing that there was a need to limit
24 volume at times, and to accept lesser payments to
25 permit that to happen.

1 And I think that it is completely consistent
2 with the story that we were telling this morning. The
3 other thing -- and I don't have these data in front of
4 me, but what we obviously need to track is the
5 increase in productivity.

6 I mean, there are certainly job losses in
7 their industry and in ours, and there is productivity
8 growth in both as well, and I think we need to balance
9 those two factors.

10 VICE CHAIRMAN WILLIAMSON: Commissioner
11 Pearson and I have had a long ongoing discussion about
12 productivity, but I guess the point here is that just
13 as in the auto industry, and thinking about if there
14 is injury, and how vulnerable is the industry, and the
15 employment numbers, and the chances of those jobs
16 coming back even if you have just the normal
17 productivity with technological improvements, and
18 whether or not there has been an impact greater than
19 that, are things that are relevant here.

20 And as I said, you never mentioned that side
21 of it in talking about whether or not how vulnerable
22 the industry was, and whether they were doing well or
23 not.

24 MR. DUNN: Commissioner Williamson, there
25 are two -- the productivity issue, however, is

1 critical. I mean, the question is, does the reduction
2 in the number of workers mean that it is more
3 vulnerable. Our view would be that it doesn't.

4 We have the same amount of steel roughly
5 being made today that was made at the end of World War
6 II, with 15 to 20 percent of the workers. The
7 productivity, even over the period of investigation,
8 has increased remarkably.

9 And at times when imports were low, imports
10 are not affecting that productivity. That is a
11 technology driven and efficiency driven development in
12 the industry. Also, that increased productivity
13 reduces the number of employees, but it increases the
14 average wage.

15 If you look at the average wage of workers
16 in our brief, in Figure 10 of our brief, you will see
17 that it has increased. So your people are working, no
18 doubt, but they are making more money.

19 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
20 I will let the Petitioners respond with their view of
21 the impact, and how much is productivity, and what
22 other factors may be affecting it. I know that we can
23 go on for quite a while about that.

24 MR. MCCONNELL: If I could just add one more
25 comment. One effect in restructuring, and obviously

1 with time limitations, and the number of dimensions in
2 the chart, there is a limit as to what you can
3 address.

4 But one of the points of the restructuring
5 was -- and I think that Mr. Conway mentioned this
6 morning, was a fairly revolutionary development in
7 work rules and relationships with the labor unions.

8 And we talked about that a great deal in our
9 closing hearing, and I did not do it in detail today,
10 but that is actually quite important, and I think that
11 tends to reduce vulnerability rather significantly,
12 because what we have heard a lot about is the
13 volatility here.

14 And we have seen that at the end of the
15 chart, and you see how things are going up and down,
16 and the need to be able to contract production rather
17 rapidly, and expand it rapidly, and these kinds of
18 work rules, I think, that came out of the
19 restructuring are extremely useful in that.

20 So the net of that, I think, is actually to
21 reduce vulnerability, because the industry is more
22 flexible and more capable of dealing with these
23 uncertainties than it was back in the late 1990s.

24 VICE CHAIRMAN WILLIAMSON: Okay. Well, I
25 don't want to stretch this out too far, but one could

1 also argue about pension benefits, health care, and a
2 whole lot of other things, and whether or not our
3 workers are more vulnerable now.

4 And also just the distribution of where has
5 the growth and wealth in this country gone in the last
6 decade, as to whether or not the workers are more
7 vulnerable or less. But let me stop there because I
8 am getting off the topic.

9 I was wondering what has been the impact of
10 the existing suspension agreements on the volume and
11 prices of subject imports from Russia? The
12 Petitioners did have some testimony on that, and I
13 wasn't sure whether anybody wants to address it from
14 the Respondent's point of view.

15 MR. LEWIS: Commissioner Williamson,
16 everybody is looking back at me as the spokesman for
17 the Russians here. Again, for the record, Craig
18 Lewis, from Hogan Lovells. I can't speak much beyond
19 what I have read in the Russian brief.

20 But I would commend your attention to
21 Exhibit 2 of their brief, in which they have tracked
22 on an FOB delivered to the United States basis the
23 reference prices under the suspension agreement, as
24 compared to market prices.

25 And that chart will show you that for the

1 most part the reference prices have been, with very
2 few exceptions, have been below the market prices.
3 So, first of all, that element of the suspension
4 agreement, in the vast majority of the quarters, and I
5 think it is maybe only a couple -- and I may not have
6 that exactly correct -- has been irrelevant in that
7 time period.

8 So that, first of all, and second of all,
9 that being a basis for saying that the suspension
10 agreement is not inhibiting imports in terms of
11 pricing obligations, what was the experience in terms
12 of the exports from Russia.

13 And as I mentioned in my direct testimony
14 the Russians have shipped substantially far below the
15 quotas that they were permitted to ship up to -- and I
16 hasten to mention this by the way, that the quota for
17 the establishment of the suspension agreement legally
18 speaking are established at a level which is
19 determined to be non-injurious.

20 So the answer is that without the
21 restraints, any pricing restraints, they have not
22 shipped beyond the quota levels. Moreover, in the few
23 years in which Russian imports did increase
24 substantially, and there were a couple, my
25 understanding -- and I would like to be able to have

1 the opportunity to address this in the post-hearing.

2 But my understanding is that there were
3 special circumstances that explains the increase in
4 the Russian imports in those particular years, and
5 that it specifically had to do with as I understood it
6 accidents or problems in the U.S. manufacturing
7 facilities in the United States that necessitated
8 supplementing from Russia.

9 So there is a story behind those numbers as
10 well, but I think the basic point is that the
11 suspension agreement has had no effect.

12 VICE CHAIRMAN WILLIAMSON: I'm sorry, but I
13 am running way over my time.

14 MR. LEWIS: No problem.

15 VICE CHAIRMAN WILLIAMSON: So I was going to
16 offer you the opportunity to do so in post-hearing.
17 Thank you very much. I'm sorry for going over.

18 CHAIRPERSON OKUN: That's okay. Some of the
19 witnesses can't see the light all the time.
20 Commissioner Lane.

21 COMMISSIONER LANE: Good afternoon and
22 welcome to this afternoon's panel. I would like to
23 refer you to two exhibits. The first one is from your
24 own exhibit, Mr. McConnell. It is the fundamental
25 shift in profitability after restructuring.

1 And the source is the staff report, Table 1-
2 1, and it shows that in 2009 the industry had profits
3 of minus almost 12 percent, and then in 2010, it is 2
4 percent. So if you look at the two most recent years,
5 would you say that that is a profitable industry?

6 MR. MCCONNELL: I think the question on the
7 table is how did this industry deal with the most
8 difficult economic circumstances that any of us have
9 ever seen. They lost money in 2009, and so did we.
10 It was a very, very difficult market.

11 The question I think is that on a forward
12 going basis what can we draw from that performance to
13 determine whether they are vulnerable, and the point
14 that we made is that they bounced back very quickly.

15 And if you look at the actual cash losses
16 that they had in this industry during extremely
17 difficult times, they were actually -- they did pretty
18 well in an extremely difficult situation.

19 MR. DUNN: Commissioner Lane, that is
20 actually the chart from my presentation.

21 COMMISSIONER LANE: Oh, I'm sorry.

22 MR. DUNN: I just wanted to point out that
23 we are not denying what happened in 2009. We are
24 saying though that the statute requires you to look at
25 the performance of the industry over the business

1 cycle.

2 And what the Petitioners this morning would
3 have you do is to look at those two years, and ignore
4 the man behind the curtain, which is the \$22 billion
5 of profit that they made in the preceding five years.

6 So there is a lot -- I mean, that chart
7 shows two different industries cut right at 2004, and
8 what we are saying is let's look at that. Let's look
9 at that business cycle. Let's not look at -- well, we
10 don't deny, and there certainly is no dispute over the
11 facts here.

12 The dispute is over what you make of it, and
13 if you are just looking at those two years, you are
14 looking at it with blinders. You have to look at how
15 the industry has performed over the business cycle.

16 It is doing pretty well and it is going to
17 continue to do well. Even the Petitioners, Mr.
18 Lighthizer's chart today, showed demand increasing
19 over the next several years through 2014. Not huge
20 increases, but it is increasing steadily.

21 COMMISSIONER LANE: And then going to the
22 exhibit from this morning showing the unused capacity
23 of the foreign producers, showing it at almost 10
24 million net tons. Do you disagree with that number?

25 MR. DUNN: The question is -- and I don't

1 have that chart in front of me, and I am trying to
2 remember whether the 10 million tons is our reported
3 number in the response, or is that the number from the
4 CRU.

5 And if it is the CRU data, then the CRU data
6 looks at rated capacity, and not practical capacity as
7 the Commission looks at it.

8 COMMISSIONER LANE: My real question is this
9 morning we heard that the prices for hot-rolled in the
10 United States are higher than most other places in the
11 world. Do you agree with that statement?

12 MR. DUNN: I certainly don't agree with it
13 with respect to Brazil. Prices in Brazil are higher
14 than the prices in the United States. In terms of
15 what that means, and again it is not a question of
16 what the facts are. The question is what it means.

17 That is a pretty good thing if those prices
18 are high, and by the way, as I was saying in my
19 testimony, when you have price increases like that,
20 when they come to price increases of that amount, and
21 that significant, even over the last five months, and
22 they are doing so at 70 percent of capacity, you have
23 to wonder how real that unused capacity that they are
24 pointing to in the United States is.

25 COMMISSIONER LANE: Well, let me ask you

1 this. If the prices in the United States are high,
2 why would not these three countries take the capacity,
3 their excess capacity, without even talking about
4 shifting some of their sales from existing markets to
5 the United States, why wouldn't the three countries
6 shift product to the United States?

7 MR. DUNN: That comes to a point that I
8 really have been trying to express to the Commission
9 for the past 15 to 20 years, and that is --

10 COMMISSIONER LANE: Okay. Try again.

11 MR. DUNN: I will try one more time. I am
12 not going to stop now. The assumption underlying that
13 argument is whatever unused capacity we have, we are
14 going to go there. We are going to produce it all,
15 and it is coming to the U.S.

16 COMMISSIONER LANE: Well, wait just a
17 second. Part of your presentation going back to 1998,
18 and talking about how conditions were different now
19 than they were then, are you ignoring the fact that
20 this Commission put an order on based upon those
21 facts, and then again put the order on again based on
22 the facts that you were talking about?

23 MR. DUNN: Of course not, Commissioner Lane.

24 COMMISSIONER LANE: Okay.

25 MR. DUNN: What I am saying is that the

1 assumption is that all of that unused capacity, it is
2 like the monster under the bed. All of that unused
3 capacity is coming to the United States, and we are
4 shipping it.

5 Well, what we have shown you is we have
6 other customers. The domestic industry shows itself
7 that they are reluctant to use, and at some point, you
8 start coming close to your economic capacity.

9 When we have a market in Brazil that is
10 higher priced than the United States, and when we have
11 Latin American markets that are growing, and when we
12 have customers, and our whole market plans are
13 directed towards Brazil and the Latin American market,
14 the idea that we are going to produce flat out 100
15 percent kind of capacity as soon as this order is
16 lifted is preposterous.

17 MR. MCCONNELL: Commissioner Lane, if I
18 could offer just one example, and it has to do with
19 the Russian suspension agreement. I mean, there were
20 reference prices, and there were quota allotments
21 allowed for the Russians, and if you go back to 2008
22 when the reference price was at around \$500 a ton,
23 U.S. prices were over that and over a thousand dollars
24 a ton.

25 And you would think that the Russians, based

1 on how the Petitioners argue it, would be shipping out
2 the wazoo to the United States, but they did not, and
3 that's because there are other markets and demand that
4 they are serving.

5 COMMISSIONER LANE: Okay. Now, Mr.
6 McConnell.

7 MR. MCCULLOUGH: If I could just offer one
8 point. There is a fundamental inconsistency with the
9 arguments that you heard this morning, and I think
10 that your questions are touching upon. I mean, on the
11 one hand, we heard prices are really high in the U.S.
12 markets, and it is going to suck in a lot of the
13 imports.

14 On the other hand, we heard that the U.S.
15 market is about to dip into a double-dip recession,
16 and we are really vulnerable because all of that
17 demand is going to go away. Both of those things
18 can't be true.

19 The situation that you described back in
20 1998 was a situation where demand collapsed in Asia.
21 The Asian currency crisis. And we had strong demand
22 in the United States. And, yes, that did bring a lot
23 of imports into the United States.

24 I don't think anybody here is going to
25 predict that we are going to have that situation

1 again, and whether the United States if going to be
2 booming like that in the next couple of years, and
3 Asia is going to collapse.

4 That scenario is unlikely So the kind of
5 assumption that as soon as you lift the orders that
6 you are going to be right back to 1998, I think (a) is
7 wrong, and (b) the way that they are arguing it is
8 fundamentally inconsistent.

9 COMMISSIONER LANE: Okay. I had another
10 question, or a lot more questions, but I will wait
11 until my next round, keeping below the 10 minute
12 level.

13 CHAIRPERSON OKUN: One of the few.
14 Commissioner Pearson.

15 COMMISSIONER PEARSON: Thank you, Madam
16 Chairman, and Commissioner Lane, you realize now that
17 you have put quite a bit of pressure on me.

18 COMMISSIONER LANE: That was my point.

19 COMMISSIONER PEARSON: Permit me also to
20 welcome all of you to this afternoon's panel. As my
21 fellow Commissioners know, it is always dangerous when
22 I start right out by asking about accumulation.

23 But nonetheless I am going to try it again.
24 In your brief, you had argued that there were grounds
25 for deaccumulation under not discernible adverse

1 impact. As I understand the position of the domestic
2 industry, they are arguing that all countries, the
3 three countries, should be accumulated.

4 Could you -- do you think there are any
5 arguments for deaccumulation on the basis of
6 differences in competition, or can't we get there on
7 this record? In the back, Mr. Woods.

8 MR. WOOD: Yes. Chris Wood. Thank you,
9 Commissioner Pearson. We actually did put an argument
10 in our prehearing brief to express the point that
11 Japan should be decumulated on the basis of different
12 conditions of competition.

13 And in our case that focuses much like the
14 corrosion resistant steel case that you did a few
15 years ago, where we think the evidence is overwhelming
16 that there is a very stable and consistent pattern of
17 trade by which the Japanese producers are focused on
18 their home and regional markets.

19 And I think even more so in this case than
20 in the corrosion resistant steel case, that has
21 persisted, and a propensity if you would like to call
22 it that, for at least the last decade, that it is
23 likely as we have shown in the brief, that it is
24 likely to continue for the foreseeable future, because
25 these are not simply opportunistic sales into what

1 markets happen to be the highest price at the time.

2 These are long term commitments made
3 pursuant to technical, financial investments with
4 local producers that are likely to persist, and we
5 think that actually does differentiate Japan certainly
6 from Russia, and to a degree from Brazil as well,
7 because the regional focus is quite different.

8 MR. STOEL: Commissioner Pearson, Jonathan
9 Stoel. Thank you very much for that question. I
10 think for Brazil, we actually did address conditions
11 of competition in our brief, and I will just summarize
12 it real quickly for you.

13 I think the first point that we made was
14 that unlike imports from our friends from Japan and
15 Russia, Brazilian imports have always been very small
16 in the market. I mean, while they did go up during
17 the original period of investigation, the increase was
18 much smaller, and they were of much smaller quantities
19 on an absolute basis than the other two countries.

20 And it remains at very, very small levels,
21 and in fact you heard Mr. Alvarez basically say that
22 they just don't have anything to ship to other
23 markets, period, much less to the United States.

24 The second point that we made, and it has
25 been touched upon a few times already, but I will

1 point you to our Joint Brief, Exhibit 12, and our
2 Brazil Brief, Exhibit 3, and that prices in Brazil
3 have simply been much, much higher than in any other
4 market in the world.

5 And so the idea that we want to ship to the
6 United States, I can't speak for exporters from other
7 countries, but that Brazil has a real incentive to
8 ship to the United States is simply not true, and that
9 has been true for a long time.

10 Even when U.S. prices were high, the
11 Brazilian prices were even higher, and you heard some
12 discussion this morning about why that may be true,
13 but to be totally blunt, that really is not relevant
14 to this proceeding.

15 The fact is that prices have been higher in
16 Brazil, and they are expected to stay that way, and it
17 is not expected to decline due to ongoing and
18 increased demand in Brazil.

19 And the third thing which I touched upon in
20 my testimony, and that you heard some discussion about
21 this morning, is that just as you confronted in the
22 2007 case, here you have an affiliated enterprise in
23 Brazil, ArcelorMittal Brazil, and it is one of the
24 three largest Brazilian producers of hot-rolled steel,
25 I think that it is quite clear from Mr. Rosenthal's

1 testimony this morning that they are not going to be
2 shipping here in any way that would harm the U.S.
3 industry.

4 And that is what they have said publicly,
5 and that is what they told you in 2007, and Mr.
6 Rosenthal repeated it again this morning. So you are
7 talking about a relatively small market, or excuse me,
8 a relatively small industry in Brazil to begin with.

9 And we do think that in answer to
10 Commissioner Aranoff's question this morning, that you
11 really do have to take ArcelorMittal Brazil out of the
12 equation when you consider what might happen with
13 respect to Brazil.

14 They are not going to ship to the United
15 States, and so the idea that they are somehow adding
16 to inventories, or to exporter exploitation, or any of
17 those things, simply is not relevant to the
18 Commission's inquiry here.

19 COMMISSIONER PEARSON: Okay. Thank you for
20 those observations. If I could ask for purposes of
21 the post-hearing, and I appreciate that you made some
22 arguments earlier, and that perhaps I did not focus
23 enough on them, and there is precedent for that and I
24 apologize, but if you could look at some of the past
25 Commission decisions where we have chosen not to

1 accumulate for some host of reasons, and walk us
2 through the similarities or differences in this
3 investigation to some of those others, and make it
4 clear enough so that even I can understand it, that
5 would be just great. Thanks.

6 MR. WOOD: We will be glad to do that.

7 COMMISSIONER PEARSON: Mr. Aoyama, there
8 have been a number of references today to the
9 earthquake and the tsunami. I don't know that we yet
10 have on the record information about the location of
11 Japan's production capacity for hot-rolled steel, and
12 whether some of that capacity has been affected by
13 this disaster,

14 and if so, how we should take that into consideration.

15 MR. AOYAMA: Yes. Some of the Japanese
16 steel mills which are producing hot-rolled bands has
17 been damaged by the earthquake, but it is not Nippon
18 Steel, or I have no detailed information about that.
19 So let me submit that in detail in the post-hearing
20 brief.

21 COMMISSIONER PEARSON: Okay. That would be
22 helpful, because we have at times in the past in other
23 cases looked at issues related to natural disasters to
24 try to understand whether there were implications for
25 the marketplace going forward, and I have that

1 interest here.

2 If one or more plants have been destroyed or
3 so damaged that they might not be in operation for
4 some period of months or years, that could be
5 relevant.

6 MR. AOYAMA: Yes, but what I can mention
7 right now is that although one of these steel mills
8 producing hot-rolled steel is damaged, they are coming
9 to a normal production situation in the near future,
10 and it has not had a significant impact on the supply
11 side.

12 COMMISSIONER PEARSON: Okay. Good, and would
13 the same thing be true of energy supplies for those
14 plants?

15 MR. AOYAMA: Yes, I can say so. I am not
16 sure that you are aware of this or not, but energy
17 supplies for steel mills in Japan are of the self-
18 sufficient kind of mills, in terms of energy, you
19 know, electricity, for example. When you consider
20 that other Japanese mills are now self-sufficient, and
21 in order to compensate for the reduction of supply of
22 electricity by a power plant or energy producing
23 companies in other areas.

24 COMMISSIONER PEARSON: Thank you. Mr. Wood,
25 if there is anything that we should know in post-

1 hearing, by all means include it.

2 MR. WOOD: Thank you, Commissioner Pearson.

3 We will do so.

4 COMMISSIONER PEARSON: It is a different
5 condition if it affects the other subject countries, I
6 would observe.

7 MR. WOOD: Yes, thank you.

8 COMMISSIONER PEARSON: Mr. Aoyama, do you
9 know, or for purposes of the post-hearing, could you
10 provide information about the share of Japanese
11 exports to other Asian markets that are two related
12 entities for the purposes of further processing? Mr.
13 Woods, please?

14 MR. WOOD: Just for purposes of
15 clarification, Commissioner Pearson, when you say
16 related entities, how would you like for us to define
17 that term for purposes of the post-hearing, because
18 there are obviously a number of different
19 manifestations.

20 COMMISSIONER PEARSON: I would consider a
21 relationship to be some commitment that speaks to a
22 certain quantity of product for some period of time,
23 and it could be a long term contractual relationship,
24 and it could be actual ownership of a business entity.
25 Something that would tell me that the product is going

1 from Japan to the other firm in Asia, and not to
2 California.

3 MR. WOOD: Okay. Understood. Yes, we will
4 do that for the post-hearing.

5 COMMISSIONER PEARSON: Okay. Madam
6 Chairman, my light is just changing, and I think I
7 will up Commissioner Lane by one notch, and quit now.
8 Thank you.

9 CHAIRPERSON OKUN: Thank you. Commissioner
10 Aranoff.

11 COMMISSIONER ARANOFF: Thank you, Madam
12 Chairman, and welcome to the afternoon panel. One of
13 the arguments raised by the domestic industry this
14 morning and also in their prehearing briefs, was the
15 effect of China.

16 And in particular, I remember back in 204,
17 which was the last year the Commission was looking at,
18 and the last review that China had been a large
19 consumer of foreign steel, and that has been reversed,
20 and that China has become an exporter.

21 And the argument that is being raised now is
22 that producers in the three subject countries are
23 facing competition in their home markets from Chinese
24 imports, and also losing what have been solid export
25 markets to Chinese competition, with the result that

1 there is divergent capacity that might be seeking a
2 market in the United States.

3 So I wanted to ask counsel for both the
4 Japanese and Brazilian producers, or the witnesses, if
5 you could address the issue of competition with
6 Chinese steel in home markets and other markets
7 outside the United States?

8 MR. WOOD: Well, thank you, Commissioner
9 Aranoff. This is Chris Wood for the Japanese
10 Respondents, and I can at least start with that. I
11 have several points to make on that. One is that this
12 issue of Japanese exports to Asia being displaced by
13 new capacities in Asia, this is clearly not the first
14 case in which the Commission has heard that argument.

15 You have heard it in multiple cases, and
16 multiple times, for the last several years, and the
17 funny thing is that it has never been true. If you
18 look at the export data that we supplied in our
19 prehearing brief, which was Exhibit 9, you can see
20 this argument -- no, I'm sorry, it was not Exhibit 9.
21 It was Exhibit 1.

22 But it is a purely speculative argument at
23 this point in time. There is no evidence whatsoever
24 that the export trend to Asia is trending down from
25 Japan. If anything the growth has actually been

1 remarkably strong even in recessionary conditions,
2 which affected the United States and other markets in
3 the last few years. That has been a strong market.

4 Second, I think the arguments that you heard
5 this morning were almost entirely based on this
6 aggregate comparison of supply and demand based on
7 third-party research stuff, and that's fine. But it
8 is an almost meaningless number.

9 It is so aggregated that it assumes that
10 every ton of hot-rolled steel is the same, and we know
11 that is not true. It is not true on the supply side,
12 where producers make a range of different qualities of
13 hot-rolled steel that can be used for different
14 purposes.

15 And it is not true on the demand side, where
16 the end-users, depending on what their particular
17 application is, and what their needs are, have very
18 different requirements for the hot-rolled steel that
19 they use.

20 And you heard Mr. Aoyama this afternoon
21 describe what Nippon Steel's strategy is, and more
22 broadly, I think what the strategy of the Japanese
23 industry has been, is that we are not focused on that
24 broad, sort of lowest common denominator, market out
25 there.

1 They are in this for the long term and they
2 are looking for partners that they can work with
3 locally to set up secure sources of demand, and they
4 are serving the highest quality, highest technical
5 requirements segments of the market, and those
6 aggregate numbers tell you nothing about the supply
7 and demand balance there.

8 Let's see. I will stop there for the
9 moment, but we may have more to add on this in the
10 post-hearing.

11 COMMISSIONER ARANOFF: Okay. And can
12 someone answer for the Brazilian Respondents?

13 MR. LEWIS: Commissioner, this is Craig
14 Lewis for CSN briefly. I would like an opportunity to
15 respond more fully in the post-hearing brief, but I
16 would say, yes, obviously Brazil is an open market,
17 and there is clearly competition from imports there.

18 There is elsewhere. However, it is my
19 understanding, and we will elaborate more on this in
20 the brief, that the volume of imports has actually
21 been declining. It did increase for a while, but I am
22 not quite sure exactly of the time frame. I think it
23 was in 2009 and going into 2010.

24 But it has subsided substantially actually,
25 and is not considered to be an issue for the industry.

1 They have brought a dumping case against plate,
2 imports of plate, but there has not been any need to
3 bring a case against hot-rolled, and let's say an
4 anti-dumping case.

5 COMMISSIONER ARANOFF: Okay. Well, let me
6 follow up on that for just a minute, Mr. Lewis. The
7 domestic industry also asserted this morning that
8 Brazil is a highly protected steel market, which aside
9 from the fact that it may be inconsistent with their
10 arguments that Brazil could be taken over by Chinese
11 steel, I would still like to ask you to respond to
12 that.

13 MR. DUNN: That one, how should I say it,
14 piqued my interest. The level of import penetration
15 for hot-rolled in Brazil is higher than it is in the
16 United States. The protection that they alluded to,
17 yes, there is a 10 percent tariff, or a 12 percent
18 tariff, but the protection that they alluded to was an
19 anti-dumping case.

20 And by the way, on plate, not on high-
21 rolled. I didn't realize that filing an anti-dumping
22 case made you a protected market. Brazil is on those
23 terms a more open market than the United States.

24 COMMISSIONER ARANOFF: Okay.

25 MR. STOEL: Commissioner Aranoff, I would

1 just like to point out that there have been
2 substantial imports of hot-rolled steel into Brazil
3 from the United States, and we pointed that out in our
4 prehearing brief.

5 And I think that some of our colleagues in
6 the room on the other side know who has been shipping
7 that to Brazil. So just as there are exports from
8 China into various markets, there are also exports
9 from the United States to markets, including to
10 Brazil, and that is just part of having an open and
11 competitive global trading system.

12 COMMISSIONER ARANOFF: Okay. Well, I
13 appreciate those answers, and let me move on to a
14 related question, and this goes back to what Mr. Wood
15 was saying about the fact that not every kind of hot-
16 rolled is the same, and so you can't really look at
17 aggregate data to figure out what is happening.

18 During the original investigation, in
19 addition to specialty products, there were imports
20 coming into the United States from Japan of commodity
21 grade hot-rolled, and that may also have been true
22 with respect to Brazil.

23 I am not recalling that specifically, and I
24 understood the statements that Nippon Steel's strategy
25 is to produce as much of the high-end specialty

1 products as possible, and any technologically advanced
2 steel company would want to do that nowadays.

3 But the domestic industry always tells us
4 that they still have to fill up their mills to some
5 extent with commodity products, and I assume that is
6 also the case for Japanese producers. So my question
7 is where are the commodity products going that are
8 produced in Japanese mills, and why are we confident
9 that they are not going to come to the United States
10 as they did in the original period?

11 MR. WOOD: This is Chris Wood, Commissioner.
12 Let me start with that, and then Mr. Aoyama may want
13 to add a point or two. I think the first thing to
14 bear in mind, or rather to keep in perspective, is
15 exactly how different the conditions are today
16 relative to 1997 or 1998.

17 There was some reference to it this
18 afternoon, but at the time of the original
19 investigation, you had this unique set of historical
20 conditions, where the U.S. was not only a very large
21 and growing market at the same time that Asia, which
22 was proportionately smaller then than it is today, and
23 was suffering tremendously from the financial crisis.

24 And if you compare how things have changed
25 over the last decade -- I mean, you can just look at

1 what happened in 2009, where there was another
2 worldwide recession, and this time Asia held up far
3 better than just about anywhere in the world,
4 including the United States.

5 COMMISSIONER ARANOFF: Okay. I don't want
6 to short-circuit you too much, but since my time is
7 coming to an end, I get the Asian crisis part, and how
8 that pushed volume out because it needed a market. I
9 get that part, but that is different.

10 But I guess what I am asking you is that
11 Japanese producers are still producing commodity grade
12 hot-rolled. If there is a good price for it here, why
13 wouldn't it come here?

14 MR. AOYAMA: Well, because the -- well, now,
15 yes, there is a price in the United States that is
16 high, but it is not always high, and as I mentioned in
17 my testimony, our business philosophy is depending on
18 the long term relationship, and the trust of the
19 technical relationship with our customers.

20 So having said that, we think that it is
21 rather difficult to find a good opportunity to
22 differentiate ourselves in the United States market,
23 especially the commodity market.

24 COMMISSIONER ARANOFF: Okay. I may follow
25 up on this in my next round, because my time is up,

1 but for post-hearing, I guess I am trying to reconcile
2 what Mr. Aoyama has just said with his statements
3 before, and what he was testifying to before was that
4 these relationships that Nippon Steel has developed
5 are with people who buy specialty grade, and not with
6 people who buy commodity grade.

7 Maybe I am wrong about that, but perhaps if
8 you could explain that more post-hearing. Thank you,
9 Madam Chairman.

10 CHAIRPERSON OKUN: Commissioner Pinkert.

11 COMMISSIONER PINKERT: Thank you, Madam
12 Chairman, and I thank this panel for being here, and
13 helping us to understand what is happening in this
14 industry, and what is likely to happen in the future.

15 I want to begin with a couple of questions
16 for Ford. I listened to the questions and answers
17 with Vice Chairman Williamson, and I am prompted to
18 wonder whether you might want to respond to some of
19 the union testimony with regard to the consolidation
20 in the industry, because I think one of the things
21 that you could derive from their testimony is that the
22 union felt that much of the consolidation was actually
23 driven by the pressure from imports.

24 And so the reduction in the labor force then
25 would be perhaps to some degree a function of the

1 impact of subject imports. Can you sort of respond to
2 that idea?

3 MR. MCCONNELL: I would be happy to respond
4 to that. We disagree. We don't think that the
5 restructuring was driven by imports. We think that
6 the restructuring was driven by the fact that the U.S.
7 industry had found itself in a position where it,
8 totally aside from the imports, could not control its
9 own destiny and was not competitive.

10 I haven't got the exact figures in front of
11 me, but I recall hearing here back in that time frame,
12 where I think -- well, maybe it was up on The Hill,
13 where the Chairman of Bethlehem Steel said that he had
14 nine retired employee pensions for every current
15 employee in the mill.

16 I mean, there was an issue that had to be
17 addressed within the industry, and that overproduction
18 was the symptom of that problem. Even sort of aside
19 from imports, overproduction within the United States
20 prevented the industry from maintaining the price
21 levels that it needed to have to be profitable. So we
22 would disagree with the suggestion that imports
23 prompted the restructuring.

24 MR. MCCULLOUGH: Commissioner Pinkert, I
25 think the factors that we look at that led to the

1 restructuring, the only way the restructuring could
2 occur is the PBGC stepping in to take pensions,
3 bankruptcy washing away billions of dollars of costs,
4 and restructured labor agreements, all of which were
5 major components of the integrated industry's fixed
6 costs, and liabilities that prevented integrated mills
7 basically from consolidating and rationalizing.

8 It led to a continuation of capacity rather
9 than a rationalization of that capacity, and until
10 those three events occurred, there was not going to be
11 any restructuring in this market.

12 And none of those factors, those three
13 events, were determined by either the trade remedy
14 measures that were put in place, or imports.

15 MR. MCCONNELL: Commissioner Pinkert, if I
16 could just supplement that with one further point. I
17 think that I mentioned this in direct, but just to
18 draw on it again. I think the test case here is 2001,
19 where you had 20 different anti-dumping and
20 countervailing duty orders in place.

21 Imports had fallen to about a quarter of
22 their level that they had been at their peak when you
23 imposed these orders, and the industry still could not
24 prevent itself from overproducing. So our point is
25 quite clear. That the restructuring was driven by the

1 fundamental flaws in the U.S.industry itself.

2 COMMISSIONER PINKERT: Thank you. I would
3 ask the domestic representatives to respond to that in
4 the post-hearing as well. Now, in addition, you heard
5 a lot this morning about the ability to control
6 variable costs in the domestic industry, and I am
7 wondering if Ford can tell us whether the mini-mills
8 have an advantage over the integrated mills, in terms
9 of the ability to control their variable costs when
10 they are producing at less than capacity?

11 MR. MCCONNELL: I think with at least
12 speaking for Ford, this is the kind of question where
13 Lisa King could have given you a very good answer, but
14 I don't think that the two lawyers sitting in front of
15 you can. So if we could address that in post-hearing,
16 we would be grateful.

17 COMMISSIONER PINKERT: That would be great.

18 MR. VANDEVERT: I apologize, Commissioner,
19 and it is a fair question, and I am just incapable of
20 giving you an answer right now, but we will take care
21 of it.

22 COMMISSIONER PINKERT: Well, I appreciate
23 the constraint, and I would appreciate the information
24 in post-hearing. Now, this is a question for the
25 entire panel, and I am hoping that this question

1 doesn't prompt any discussion of business proprietary
2 information.

3 But to what extent can affiliations between
4 foreign producers and U.S. importers actually increase
5 the incentive to export to those exporters, and again
6 if this raises BPI issues, you can address it in the
7 post-hearing.

8 MR. MCCULLOUGH: Commissioner Pinkert, could
9 you repeat the question?

10 COMMISSIONER PINKERT: Yes. To what extent
11 can affiliations between foreign producers and
12 U.S. importers increase the incentive, or the
13 propensity if you will, to export to those U.S.
14 importers?

15 MR. MCCULLOUGH: There may be a number of
16 factors, but for example, if you look at facilities
17 north and south of the border between Canada and the
18 United States, and you look at a U.S. Steel facility ,
19 or a Canadian steel facility, they have assets on both
20 sides of the United States.

21 And I think that there were clearly some
22 decisions made that they wanted to run some of those
23 assets on both sides of the border, and instead of,
24 for example -- and I think we have shown in the
25 figures where the domestic industry ramped down their

1 hot-end down to about or below 50 percent capacity
2 utilization.

3 And you saw Canadian imports coming in at a
4 reasonably healthy clip during that period, and it is
5 clear that they made a decision on a global basis
6 which assets they were going to run, as opposed to
7 focusing on the performance of their domestic assets.

8 COMMISSIONER PINKERT: But what I am
9 speaking of specifically in the U.S. would be
10 importers. I am not talking about U.S. producers.

11 MR. MCCULLOUGH: Well, they could be
12 importers.

13 COMMISSIONER PINKERT: Okay. So to the
14 extent that that structure, or that kind of
15 relationship exists on the record, for the post-
16 hearing, if you could comment on whether the
17 relationship between the foreign producer and the U.S.
18 importer might have an impact on the propensity to
19 import into the U.S., I would appreciate it.

20 MR. MCCULLOUGH: We will certainly give that
21 a try. I don't know how much we can comment on that,
22 but we will give it an effort.

23 COMMISSIONER PINKERT: Thank you. Now,
24 turning to the Brazilian Respondent, one of the
25 questions that I had was about the history of the

1 privatization in the Brazilian industry, and whether
2 they had or whether privatization had any impact on
3 capital expenditures.

4 I remember back in the 1990s that there was
5 talk about this, and the idea at least publicly seemed
6 to be that privatization would make more capital
7 available to the industry.

8 MR. DUNN: It has. There is no doubt about
9 it. I just finished a countervailing duty
10 administrative review for Usiminas, and what is
11 remarkable -- and by the way, which found no
12 subsidization or de minimis levels of subsidization,
13 at least preliminarily.

14 But what was striking is the access that
15 those privatized mills now have to global capital.
16 Usiminas, just speaking for Usiminas, has huge amounts
17 of access to euros. They have a euro bond financing.
18 They have access to markets at Libor all over the
19 world.

20 So they have been able to capitalize their
21 ability to obtain capital, and their strategy of
22 working with capital is completely different from what
23 it was in the days of government ownership, which by
24 the way is now more than 15 years ago.

25 But it really has given them access to

1 global capital, and not to speak for any of the
2 others, but the others have -- the other Brazilian
3 mills, other than Usiminas, are multinational
4 corporations that have access to global capital as
5 well.

6 COMMISSIONER PINKERT: Mr. Alvarez, would
7 you like to comment on that?

8 MR. ALVAREZ: Well, I don't have at the
9 moment enough minutes to discuss it, but really CSN is
10 now an international company, and recently in the
11 revision of the countervailing duties, we have zero
12 for CSN.

13 COMMISSIONER PINKERT: Thank you. I, too,
14 have not taken up an entire 10 minutes for this round.
15 I just want to note that for the record, and I thank
16 the Chairman.

17 CHAIRPERSON OKUN: I am just going to note
18 that no one gets punished when they go over that I
19 know of. Somehow we go in a dark room afterwards.
20 Anyway, let's see. Mr. Alvarez, let me stick with
21 you.

22 Could you talk a little bit more about what
23 is going on in the Brazilian market with the entrance
24 of two new -- or the introduction of two new entrants
25 in the Brazilian market, and how you expect them to

1 compete?

2 Do you expect them to be competing with you
3 for home market customers, or are they looking at
4 exports? Tell me a little bit more, and I would ask
5 Mr. Dunn and others if there are any other comments
6 about what is going on in Brazil with capacity
7 additions.

8 MR. ALVAREZ: Thank you. Brazil now is
9 experiencing a very huge improvement in the economy
10 since the last five years. We made a GNP bridge
11 growth of 4.6 percent. In 2009, with the world crisis
12 globally, it was minus .2 percent. It was negative,
13 but it was much better than most of the countries,
14 maybe only worse than China.

15 And in 2010, we had a 7.5 percent GNP
16 increase, and we are expecting from the next few years
17 around also a 4.6 percent increase. The increase in
18 the GNP now is limited. We are limited in something
19 like -- well, just to go a little before five, just to
20 go against the inflation, because we are very close to
21 the maximum utilization capacity, not only in steel,
22 but in several products.

23 So when the demand is close to the full
24 capacity, the production price starts to increase, and
25 we are suffering again, and Brazilians are very, very

1 afraid of inflation, because we had inflation in
2 Brazil maybe 20 years ago maybe by a thousand percent
3 higher, and so they are very afraid that there would
4 be inflation.

5 Now, during the crisis in 2009, the former
6 president, Mr. Dula, they made several incentives in
7 order to keep high demand in Brazil. For example, by
8 reducing the taxes in automobile, and in white goods,
9 in order to allow people to increase to buy things,
10 and to buy these products.

11 And it was a very good result, and at the
12 same time it increased the sales of cars and white
13 goods, and increased the income of the people, and
14 people started to feel off the chain of several
15 customers, and also incentivizing and reducing the
16 taxes, and interest rates for acquisition of houses.

17 In Brazil, we have a lot of people who are
18 homeless, and the government started a program to
19 offer to these homeless even a single house, to start
20 a cycle very big improvements in the economy.

21 Certainly all these improvements in demand
22 for white goods, and cars, and in civil construction,
23 and infrastructure, provoked a huge demand for steel.
24 And in 2009, when we were where prices were higher for
25 steel, like 1,200 dollars per metric ton, and that was

1 more or less in the middle of 2009, at that time the
2 conditions in the rest of the world started to become
3 worse, and international prices started to decrease.

4 So several customers, main distributors in
5 Brazil, looked at the situation as a good opportunity
6 to get money. So they started with huge imports. In
7 2010, we imported from Brazil 3.7 million tons in
8 total, and one million tons of hot-rolled coils. One
9 million tons is around 25 percent of the market share.

10 So the mills in Brazil were forced to stop
11 the huge imports, and we were forced to reduce the
12 price, and even to reduce the offers to the market,
13 first to combat against world imports, and also to
14 allow the reduction of inventories in the
15 distribution, which were very higher than usual.

16 Only at the beginning of this year, in
17 February, the inventories and the distributions of
18 those inventories started to come to regular levels.
19 So in March the demand in Brazil was a record for
20 several or many years ago.

21 And we expect that from now on, and for the
22 rest of the year, demand will stay very high, and we
23 are controlling better the price in order not to have
24 huge imports again. We have had imports of around 1.2
25 million tons per year, and that is acceptable.

1 Now, we prefer to survive having imports in
2 Brazil for two reasons, because it is better just to
3 play in the international market, and also because for
4 several items of steel, we don't have enough
5 production. We have steel production, but not for all
6 or several specialties.

7 CHAIRPERSON OKUN: Okay. Thank you, Mr.
8 Alvarez.

9 MR. DUNN: Chairman Okun, this is Chris
10 Dunn. I just wanted to get to the issue of additional
11 capacity. I am not sure what you are referring to
12 specifically in terms of two new entrants, because I
13 think that in some of the Petitioners' briefs, they
14 count slab capacity as hot-rolled capacity, and so I
15 don't want to really comment specifically on the
16 numbers.

17 CHAIRPERSON OKUN: Okay.

18 MR. DUNN: But I will comment specifically
19 on Usiminas, which they did point to, and Usiminas has
20 recognized that it is bringing on at the end of 2011,
21 starting up production of two million tons.

22 However, I want you to look at Usiminas'
23 business plan for its production levels, and in the
24 Usiminas questionnaire response, and you will see that
25 their production levels that they projected at the end

1 of 2010 for the next five years don't go up anywhere
2 near that amount, a fraction of that amount.

3 Why is that? Because it is replacement
4 capacity, and again this goes back to the point that I
5 was getting at earlier, however unartfully, that the
6 Petitioners assume that once you have capacity that
7 you always have that capacity.

8 And that when you add new capacity that old
9 capacity is still there ready to go. Well, it isn't.
10 It is a dynamic process in which new capacity,
11 upgraded capacity, is replacing old capacity, and you
12 can see that is what is occurring with Usiminas.

13 CHAIRPERSON OKUN: Okay. So you might need
14 to expand on that in post-hearing just to make sure
15 that that is clear, and also just for Brazil, I would
16 like to see what the breakdown was in the different
17 markets where Mr. Alvarez was talking about, and
18 whether there was more gross in the automotive, versus
19 the white goods, or in the oil and gas sectors, to
20 help me to better understand looking forward where
21 products are going to go in Brazil. That would be
22 helpful.

23 MR. STOEL: Chairman Okun, that information
24 is actually already in our prehearing brief, and there
25 is a table on that in the text itself, where we have

1 forecasts, as well as past, for each of the different
2 sectors.

3 Also, on behalf of CSN, we don't have any
4 plans to have increased capacity for the foreseeable
5 future as the Commissioner defines it.

6 CHAIRPERSON OKUN: Okay. Well, was the text
7 talking about going forward, or was that looking
8 backward? Was it forward looking?

9 MR. STOEL: I believe it was both, but if
10 not --

11 CHAIRPERSON OKUN: Well, I will look at that
12 again. Thank you. And then with my time remaining --
13 and my yellow light is on, but Mr. Lewis, you had
14 several times brought up in your submittal and arguing
15 for different things, including that we should
16 discount their capacity when looking at it.

17 And I guess one thing, and this can be in
18 post-hearing, is again if your brief is looking at the
19 fact patterns that the Commission has looked at in
20 making decisions with respect to what weight to put on
21 these affiliations, because I think Mr. Rosenthal
22 several times made the point that this fact pattern
23 for our submittal is not the same fact pattern that
24 the Commission had looked at in other cases. So I
25 would ask you to look at those cases, and say whether

1 you agree or disagree with that.

2 MR. LEWIS: This is Craig Lewis for CSN. I
3 don't mind responding at least partially right now to
4 that. Did you direct this question to me?

5 CHAIRPERSON OKUN: I did direct it to you,
6 but if you would be brief. My red light is on.

7 MR. LEWIS: This keeps happening to me.
8 Could I come back to that later?

9 CHAIRPERSON OKUN: Yes, I will let you come
10 back to that on my next round as I have a follow-up on
11 that, too. So, with that, I will turn it over to the
12 Vice Chairman.

13 VICE CHAIRMAN WILLIAMSON: Thank you. I'm
14 sorry. Mr. Alvarez, I was just wondering, in a
15 question regarding CSN's cold-rolling mill in the U.S.
16 and if the orders were revoked, would CSN of Brazil
17 have an incentive to supply the Indiana cold-rolling
18 mill, supply its affiliate CSN-LLC with hot-rolled
19 steel?

20 MR. ALVAREZ: Certainly, no.

21 VICE CHAIRMAN WILLIAMSON: Why not?

22 MR. ALVAREZ: Because we have no enough
23 volume. We have no plans to increase production. All
24 the CSN production is dedicated to domestic market.
25 So I don't see opportunity at the least, considering

1 the conditions ahead.

2 VICE CHAIRMAN WILLIAMSON: You mean because
3 of demand in Brazil?

4 MR. ALVAREZ: So we are buying all the hot-
5 rolled coils that we need from U.S. mills nearby the
6 company. We have a very strong and relationship with
7 the steel mills.

8 MR. LEWIS: Commissioner Williamson, Craig
9 Lewis. If I might add to that. I can't speak to this
10 in a public hearing, but I would commend your
11 attention to the questionnaire response that CSN-LLC
12 filed in which they have a fairly detailed explanation
13 as to why they have not been sourcing from Brazil and
14 would not expect to be doing so in the future.

15 VICE CHAIRMAN WILLIAMSON: Good. Thank you
16 for that response. I will take a look at that. Thank
17 you. Mr. McConnell and Mr. Vandevert, I don't know if
18 you can address this. Is Ford experiencing any
19 problems or delays in obtaining supplies as a result
20 of the earthquake in Japan?

21 MR. VANDEVERT: With all due respect, I'm
22 not at liberty to discuss publicly specific supply
23 issues. There have been public press reports of the
24 impact on certain materials and components coming from
25 Japan that have affected the entire automotive

1 industry. I could provide you in a posthearing
2 submission with some details if you would like them.

3 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.

4 MR. MCCONNELL: If I can just supplement
5 that.

6 VICE CHAIRMAN WILLIAMSON: Sure.

7 MR. MCCONNELL: I mean, in the posthearing
8 the material we'll provide will show you that we don't
9 see it affecting our overall demand for hot-rolled
10 steel in a reasonable period of time.

11 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
12 for that. Mr. Vandevert, you're advocating for
13 revocation but I was wondering, in your brief you're
14 solid on how Ford will react if the orders under
15 review are revoked. Can you explain what effect
16 revocation would likely have on Ford's purchasing
17 patterns, and if you want to do it posthearing, you
18 can.

19 MR. VANDEVERT: Actually, we've been
20 participating in these hearings going back to at least
21 2004 and our purchasing patterns have remained
22 consistent. We purchase over 98 percent of our steel
23 requirements from U.S. steel producers and we don't
24 expect to do anything different going forward.

25 MR. MCCONNELL: If I could just add to that,

1 and I promise, I'm not trying to run your clock.

2 VICE CHAIRMAN WILLIAMSON: No, no. I have
3 lots of time. Lots of time.

4 MR. MCCONNELL: I think the corrosion-
5 resistant example is a very important example as to
6 what we're going to do if orders are lifted. The fact
7 is you lifted a number of corrosion-resistant orders
8 after the 2006 hearing in which we participated and we
9 didn't change our purchasing pattern at all. We came
10 in here and said we buy, I forget what the number was,
11 96, 98 percent of our steel from North America. We
12 still do. We haven't changed that. Now there was a
13 suggestion this morning, I think it was Mr. Scherrbaum
14 suggested that we didn't really have the opportunity
15 to import because of contracts, and then demand
16 dropped and so on. I can guarantee you the Ford Motor
17 Company wants to import steel. We're capable of doing
18 it. The point is that we didn't want to. We're here
19 because we think that we need to have competition at
20 every level of the supply chain. Just like we need to
21 be the best with our products, we need each of our
22 suppliers to face the best in the world as well. We
23 have no intention of changing our purchasing patterns.

24 MR. VANDEVERT: Yes. Commissioner, if I
25 could just --

1 VICE CHAIRMAN WILLIAMSON: Yes.

2 MR. VANDEVERT: -- add to that. In my
3 direct testimony we said that, you know, at Ford we
4 believe, and it maybe sounded like a corporate slogan
5 but it really is fundamentally true to our business
6 plan. We, Ford, are, as we've told Commissioner Okun,
7 a big part of our business plan going forward is
8 successful exports. We know that the only way that we
9 can compete in both the United States' market, the
10 domestic market and the global market is to have the
11 very latest and the greatest automotive products.
12 Again, it's a corporate slogan but our CEO keeps
13 saying it and everybody else has been trained to say
14 it. Our goal is delivering automotive products that
15 our customers want and value. It has to be the latest
16 in technology. They have to be the safest, they have
17 to be the highest quality and they have to be the
18 greenest. To get there, we need our entire supply
19 base, and our steel producers are absolutely critical.
20 They've got to be the best, too. We think that having
21 a fully competitive market is the way to get everybody
22 up to that standard.

23 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
24 Actually, you anticipated my next question about the
25 arguments of the Petitioners this morning about the

1 fact that the corrosion steel example might not be
2 relevant just because of what happened in the industry
3 in the recession and all that.

4 MR. MCCONNELL: Yes. I think we've pretty
5 much given you our response to that. The one piece I
6 might add was that I think there was also some
7 suggestion that auto steel buyers like one stop
8 shopping and that's why they didn't buy just
9 corrosion-resistant, and I just had to note, I sure
10 didn't hear them saying that in the 2006 hearing.

11 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
12 I understand from Mr. McConnell, you said that part of
13 your motivation forward is your wanting to have, was
14 it alternative supply or just more competition in the
15 domestic market?

16 MR. MCCONNELL: More competition in the
17 market. I mean, Ford's view is we've got to be world-
18 class. I mean, we're not just competing in the U.S.
19 market, we're competing worldwide, and we want every
20 point of the supply chain all the way up to be the
21 same. We think the way to achieve that is by better
22 competition.

23 VICE CHAIRMAN WILLIAMSON: Okay.

24 MR. VANDEVERT: It is fair to say and it's
25 not -- this is a bit difficult for me to make the

1 distinction. However, having alternative supplies, we
2 cannot be beholden to a single supplier or a single
3 even region of supply. In one sense, maybe it's that
4 example of Japan. We haven't been directly affected
5 there, or at least yet, but, yes, we also do need
6 alternative forms of supply should something happen to
7 the supply base that we rely on. So, yes, there is
8 something to alternative. It's not to undermine the
9 primary source of supply, but as I think has been kind
10 of inherently, this is a horrible area to have to talk
11 about it, but each of our businesses in each of our
12 countries have to move on with their own affairs and
13 their own business regardless of what's happening in
14 another region, and so, yes, it is fair to say that in
15 lifting the orders not only our primary purpose would
16 be to have a truly competitive, comprehensively
17 competitive supply base, but, yes, also to have viable
18 alternatives.

19 VICE CHAIRMAN WILLIAMSON: Okay.

20 MR. PRUSA: Vice Chairman Williamson?

21 VICE CHAIRMAN WILLIAMSON: Yes?

22 MR. PRUSA: This is Tom Prusa. You know,
23 could we talk about the corrosion-resistance? Because
24 you sound like you alluded to it. You wanted to ask
25 about Ford and what this issue -- domestic industry

1 kind of discounted the probative value of a related
2 flat-rolled product, so we clearly have a case where
3 there was strong opposition, as Chris Wood testified.
4 Nothing happens, they said. Now, this morning they
5 tell you that the Japanese can produce anything, they
6 don't have to produce the high end hot-rolled, and
7 that was probably exactly, I wasn't at that hearing,
8 but I wouldn't be surprised if they also didn't say
9 the same thing for corrosion-resistant, following on
10 what Commissioner Lane was saying. If you believe the
11 theory that every ton of capacity the Japanese are
12 going to produce, they're going to produce, and they
13 don't care whether, what kind of hot-rolled, that
14 totally rejected by what they did in corrosion-
15 resistant. They don't only have to sell to the auto
16 makers. That's exactly what they did. They have
17 chosen to stay in this very specialized high end
18 steel, and that's the probative value for this case:
19 What did they do in a very similar product?

20 VICE CHAIRMAN WILLIAMSON: Well, I thought
21 the point this morning was that partially because, you
22 know, it does take time to start getting new orders,
23 and then you had the recession and the down tone in
24 demand, and so that really wasn't, they were saying it
25 wasn't really a test of what they might have done in

1 terms of corrosion.

2 MR. MCCONNELL: I would disagree with that
3 from our perspective. I mean, we've kept our
4 percentage quite constant throughout. I mean, even in
5 a downturn, if we have a desire to move elsewhere to
6 go steel, we could have changed that to get steel from
7 imported sources. We could have done that. We could
8 have moved, we could have lessened that percentage.
9 We didn't do it. The fact that we're producing less
10 units doesn't mean we can't move sourcing around.

11 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
12 I was going to give back four minutes but now I'm
13 over. Thank you.

14 CHAIRMAN OKUN: Commissioner Lane?

15 COMMISSIONER LANE: I guess I started a
16 trend here. I want to make sure that I understand all
17 three countries' position on cumulation. Are each of
18 you saying that you don't want to be cumulated with
19 any other country? That the Commission ought to
20 decumulate each country, Japan, Russia and Brazil?

21 MR. WOOD: Well, thank you, Commissioner
22 Lane. This is Chris Wood. I can start with Japan,
23 and yes. I mean, our position is that there are
24 sufficient conditions of competition that
25 differentiate the Japanese circumstances from the

1 other Respondents, and also that revocation of the
2 order would not lead to any increase in volumes that
3 would have a discernable adverse impact on the
4 industry. I know obviously we also joined in the
5 joint brief arguments recognizing the possibility that
6 not all Commissioners may agree with us that we should
7 be decumulated. But, no, our basic position is that
8 we should be decumulated and considered separately.

9 COMMISSIONER LANE: Okay. What about
10 Brazil?

11 MR. STOEL: Commissioner Lane, Jonathan
12 Stoel. Yes. As discussed earlier with Commissioner
13 Pearson, we did, in fact, argue for decumulation, both
14 on the no discernable impact prong of the statute and
15 also under the Commission's discretionary conditions
16 of competition analysis.

17 COMMISSIONER LANE: Okay. And I forgot
18 who's speaking for Russia.

19 MR. LEWIS: I suppose that would be me.
20 Craig Lewis, Hogan Levels. Actually, I cannot speak
21 for Russia on this point, but I think through a
22 process of elimination they are also not arguing for
23 cumulation either.

24 COMMISSIONER LANE: Okay. Under the
25 Commission in the past, or certain Commissioners in

1 the past have decumulated on the basis of other
2 considerations. Do you agree that the Commission
3 should consider the domestic industry's vulnerability,
4 or lack thereof, in its cumulation analysis under the
5 "other considerations"? Hey, come on! My minutes, or
6 my seconds are running. Yes. Somebody answer,
7 please.

8 MR. WOOD: Well, Commissioner Lane, I'll
9 take a first stab at this for Japan. I guess it is
10 not intuitive to me how the vulnerability, or lack
11 thereof, of the domestic industry is necessarily
12 relevant to the discretionary decision whether there
13 are conditions of competition affecting individual
14 foreign countries that warrant your separate
15 consideration of them in terms of revocation. I will
16 confess, I do not come in fully briefed on this
17 particular topic, but just intuitively, that doesn't
18 follow to me.

19 COMMISSIONER LANE: Is there anybody that
20 disagrees with what Mr. Wood said?

21 (No response.)

22 COMMISSIONER LANE: Okay. I'll go on to my
23 next question then. Members of this panel have argued
24 that the United States industry's consolidations have
25 permitted U.S. producers to cut production during

1 periods of declining domestic demand in order to keep
2 prices up. Do the three subject foreign industries
3 also have a similar level of consolidation or
4 discipline to refrain from over producing in order to
5 maintain high prices?

6 MR. WOOD: Well, Commissioner Lane, this is
7 Chris Wood again. I think answering -- if you don't
8 mind, I would prefer to address that in a posthearing
9 thing because I'm not sure I can do it without getting
10 into confidential information that's in the record. I
11 don't have the numbers right here in front of me.

12 COMMISSIONER LANE: Okay. Why don't all
13 three countries do it posthearing.

14 MR. MCCULLOUGH: We'd be pleased to do that,
15 Commissioner Lane.

16 COMMISSIONER LANE: Okay. Thank you.
17 Professor Prusa, do you agree with the staff report's
18 elasticity estimates found at pages 2-35 and 36 of the
19 staff report?

20 MR. PRUSA: You know, without comparing them
21 to previous staff reports, my general impression is
22 that the elasticities are fine.

23 COMMISSIONER LANE: Okay. Thank you. This
24 morning I had a discussion with the domestic industry
25 about what ArcelorMittal discussed in its brief about

1 the Commission's traditional constructed fair market
2 value method for internal consumption as opposed to
3 another methodology which would evaluate the condition
4 of the domestic industry using the valuation
5 methodology based on cost plus allocated gross profit.
6 Now, do you agree that the Commission should use both
7 methods? If so, why or why not?

8 MR. DUNN: Commissioner Lane, Chris Dunn. I
9 don't, I'm not sure exactly what word we're going to
10 use to describe which method.

11 COMMISSIONER LANE: One's fair market value,
12 and one is the allocation method.

13 MR. DUNN: That's fine. I agree. I do not
14 think the allocation method is appropriate. I think
15 none of us here do. It is, number one, contrary to
16 generally accepted accounting principles, and it
17 results, I believe, in a real economic sense in
18 distortion of where the profit is being earned, and we
19 will address that in a posthearing submission.
20 Unfortunately, we don't have prepared a nice little
21 chart in response to that question, but we will have a
22 chart. It's difficult to work through the numbers
23 precisely without having a chart in front of you, so
24 we will do that in the posthearing.

25 COMMISSIONER LANE: Okay. Thank you. At

1 page 12 of its prehearing brief, U.S. Steel argues
2 that if the orders and suspension agreement are
3 revoked, it is highly likely that the resulting
4 increase in imports would be heavily, if not
5 exclusively, concentrated in the merchant market. Do
6 you agree that any increase in subject imports would
7 be concentrated in the merchant market? Mr. Dunn?

8 MR. DUNN: Thank you, Commissioner Lane. I
9 think that of course the steel that is imported is
10 imported into the merchant market. I don't think
11 there's much doubt about that. Of course as you also
12 know, we're not shipping a whole lot of steel, and we
13 aren't going to be shipping a whole lot of steel into
14 the United States. I only raise a question about it
15 because the big, the giant, relatively speaking,
16 source of imports in the United States is Canada.
17 That's a million to a million and a half tons a year
18 coming in from Canada. I don't know how much of that
19 is going into downstream facilities that the domestic
20 producers themselves own for cold-rolling, and
21 eventually for galvanizing, so to say imports
22 generally are or aren't in the merchant market is
23 difficult without understanding, as we don't have
24 access to the data, the precise situation of the big
25 import source, which is Canada.

1 COMMISSIONER LANE: Okay. Thank you. Mr.
2 Vandevert, I have a question for you. Your need for
3 competitive alternatives, can that not be satisfied by
4 the different U.S. companies that are providing hot-
5 rolled steel that compete with each other?

6 MR. VANDEVERT: What I would say,
7 Commissioner, is is that with our current
8 requirements, in excess of 98 percent being satisfied
9 by the U.S. mills, I mean it's such a high percentage
10 that if any one of them encountered some kind of
11 difficulty in which case they were not able to meet
12 our demands, I don't know where else we would go.

13 COMMISSIONER LANE: Okay. Thank you. Madam
14 Chair?

15 CHAIRMAN OKUN: Commissioner Pearson?

16 COMMISSIONER PEARSON: Thank you, Madam
17 Chairman. Just following up on that, Mr. Vandevert,
18 the 98 percent figure, is that just U.S. origin or is
19 that NAFTA origin?

20 MR. VANDEVERT: U.S. origin, sir.

21 COMMISSIONER PEARSON: It is. Okay. Thank
22 you. Because there's been the discussion about
23 product coming in from Canada and I could easily
24 envision lumping it all together.

25 MR. VANDEVERT: Well, we do have some steel

1 coming from Canada but the 98 percent is U.S. mills.

2 COMMISSIONER PEARSON: Okay. Thank you.

3 MR. MCCONNELL: If I could, Commissioner, I
4 think we'd also in a posthearing submission because I
5 think it's going to be confidential information
6 address that in a little more detail.

7 COMMISSIONER PEARSON: Okay. Fine. Mr.
8 Wood and Mr. Aoyama, going back to this question
9 that's been discussed already, the issue of a mixture
10 of grades imported from Japan in the original period
11 of investigation, I'm curious to understand, if
12 possible, what the pattern was of imports from Japan
13 prior to the original period of investigation, which
14 means going way back to 1995 or 1996 which may or may
15 not be possible, but I'm just wondering, in the period
16 prior to the period of investigation, did we see
17 imports from Japan being primarily the high grades,
18 the expensive product, or in that timeframe did we
19 also have the commodity grades present? The reason
20 for asking is I'm trying to understand whether the
21 composition of imports from Japan changed only after
22 the order went into effect and so that the order
23 itself had a significant influence on what Japan is
24 shipping us. Sorry for a long discussion. Frankly,
25 this might be best handled in the posthearing.

1 MR. AOYAMA: Yeah. In detail we will submit
2 in the posthearing brief, but let me say in this way.
3 You know, due to the big expansion of Asian demand,
4 especially automotive or electric appliances, the
5 nature of our hot-rolled export has been significantly
6 changed in this decade. So before the 1998
7 antidumping petitions was filed, relatively speaking,
8 the comparing to the situation right now, the
9 proportion of high end, high quality hot-rolled export
10 was not so significant in that period.

11 COMMISSIONER PEARSON: Okay. And the change
12 that you've just mentioned, does that apply only to
13 Japanese exports to the United States or Japanese
14 exports to the world? Is Japan exporting --

15 MR. AOYAMA: Not only to United States.
16 Actually, after that 1998 there was almost nothing
17 exported to United States except the very limited
18 facility material, but what I mentioned can be applied
19 to our export to all over the world.

20 COMMISSIONER PEARSON: Okay. Thank you. I
21 appreciate that. Again, whatever you can add in the
22 posthearing would be helpful. Staying with you, we've
23 had some discussion about the relatively high level of
24 prices that we see from Japan for Pricing Product No.
25 4. Consistent overselling, as I interpret the data

1 that we have here. Is it your position that there is
2 sufficient breadth within the definition of Product 4
3 that what is coming in from Japan is a specialty niche
4 product that is somehow inherently high value but it
5 still fits within our definition of Product 4?

6 MR. WOOD: This is Chris Wood, Commissioner
7 Pearson. I think that's exactly right is that the
8 definition is, I mean, we, you know, the pricing data
9 were reported based on the definition in the
10 questionnaires and, yes, that product, like much of
11 the product coming in from Japan currently, is this
12 high value specialty product. So I think the fact
13 that there is overselling is a relevant fact for you
14 to take into consideration. I mean, even back in the
15 investigation period there was a consistent pattern of
16 overselling by the Japanese industry which is
17 different than any of the other Respondents at that
18 time. The particular margin of overselling that
19 you're seeing in these particular quarterly reviews, I
20 don't know how much significance you can actually
21 place on that.

22 COMMISSIONER PEARSON: Okay. Well, again,
23 if there's anything for the posthearing that would
24 help us, by all means, please provide it. Mr.
25 Alvarez, Mr. Stoel, there's an argument that you've

1 made I believe that the ability of Brazil to export to
2 the United States is limited to some degree by the
3 relative exchange rate between the dollar and the
4 Real, and yet Brazil is continuing to do some
5 exporting to Europe. Is there a similar argument for
6 the exchange rate between the Euro and the Real?

7 MR. ALVAREZ: The problem of the exchange
8 rate is not only for United States, but it's for the
9 world. Really, if we had enough tonnage for export,
10 certainly the change rate is, we will jeopardize our
11 profitability. But let me tell you, theoretically, in
12 having material for us, we will be better to export or
13 to send or to transfer to our affiliated in Portugal.
14 Why? Because the costs for putting a hot-rolled coil.
15 Produce it in Brazil, in Portugal, in Lusosider, that
16 is the name of our affiliated in Portugal, is much
17 lower than to put one coil, one hot coil inside LLC in
18 Indiana, Terra Haute.

19 There is a big difference in transportation
20 cost because to put the material in United States we
21 need to discharge the vessel in midstream, in the
22 river, so we take barges, we contract distributors,
23 and discharging, and inland transportation, so it's
24 huge expensive. Also, theoretically, if we had
25 material, certainly we also, we would choose some

1 small importers in Latin America that we have
2 relationship and they're like niches, okay? Very
3 special small orders and very specialized and all
4 this. More profitable.

5 COMMISSIONER PEARSON: Okay. Well, Mr.
6 Stoel, for purposes of the posthearing, make sure that
7 the record is clear on what factors have encouraged
8 the continued exportation from Brazil to the European
9 Union and yet we're not seeing similar movement to the
10 United States.

11 MR. STOEL: I will certainly do that,
12 Commissioner Pearson. I just want to point out that I
13 believe you, yourself, recognized in the 2005 case
14 that the export orientation in the Brazilian industry
15 was small even then, and I think you see in the record
16 it's grown even smaller. I think one reason for that
17 is obviously the depreciation of the Real, but the
18 main reason is what we've talked about earlier which
19 is just that you can make a lot more money in Brazil.
20 When the demand is so strong, people are interested in
21 that. As Mr. Alvarez said, I think close, nearby
22 Latin American markets where there are also long-term
23 customers for producers in Brazil, for natural
24 reasons, you know, those are the markets they're
25 looking to and the U.S. simply is not a very

1 attractive market.

2 COMMISSIONER PEARSON: Okay, and perhaps you
3 could clarify if it's not already on the record, are
4 there exports from Brazil to the European Union other
5 than to affiliated parties?

6 MR. ALVAREZ: No. No.

7 COMMISSIONER PEARSON: It's only to the
8 affiliated parties.

9 MR. ALVAREZ: Yes. No, no. The hot-rolled
10 coils, no. We are regularly exporting only some small
11 portion, 10,000 tons per month, of steel plates, and
12 we have several customers in Europe and Latin America,
13 but hot-rolled coils, no.

14 MR. STOEL: We'll clarify for the entire
15 industry in the posthearing, Commissioner Pearson.

16 COMMISSIONER PEARSON: Okay. Thank you very
17 much. Madam Chairman, my light is changing and I have
18 no further questions so let me thank this panel very
19 much.

20 CHAIRMAN OKUN: Commissioner Aranoff?

21 COMMISSIONER ARANOFF: Thank you, Madam
22 Chairman. We've had, well, a pretty common debate
23 today about capacity utilization and whether or not
24 people really aspire to, and actually can, operate at
25 100 percent of reported capacity. One of the comments

1 from this panel has been that the domestic industry's
2 argument is based on the assumption that if the order
3 were revoked, you would do everything necessary to get
4 up to 100 percent capacity utilization in order to
5 ship any extra volume to U.S. market, and you've said,
6 no, that doesn't make any sense, and so what I wanted
7 to ask is would it be fair for the Commission to look
8 at the highest reported rate of capacity utilization
9 for each of the subject producers during this period
10 of review and then compare that with the capacity
11 utilization rate in I guess 2010 or whatever the most
12 recent data that we have are and if there's a
13 difference say, okay, that is, in fact, excess
14 capacity that there would be some incentive to produce
15 and export? I mean, is that a fair way to look at it?
16 I mean, you may not want to go up to 100 percent right
17 away, but why wouldn't you want to go up to some level
18 you've actually achieved during the period of review?
19 If that's too theoretical, people can respond
20 posthearing.

21 MR. STOEL: I think, Commissioner Aranoff,
22 we need to consider that a little bit for posthearing.
23 Jonathan Stoel, for the record. I would point out
24 that one important factor is whether there's any tie
25 between capacity utilization itself and exports. I

1 think if you look at the record in case of Brazil,
2 that isn't entirely clear, and so we I think can
3 explain on that, expand on that in the posthearing.

4 MR. WOOD: Commissioner Aranoff, this is
5 Chris Wood. For the Japanese Respondents, we can also
6 cover this in the posthearing submission, but I think
7 that you're asking two closely related questions. One
8 is what is your practical capacity, and then there's a
9 separate question as to your incentive to actually
10 produce and ship that capacity to the United States or
11 anywhere else. What we've tried to lay out in our
12 brief and our testimony is is that the Japanese
13 industry today is the opposite of an opportunistic
14 price seeker is that their entire strategy is
15 predicated not on opportunistically chasing the last
16 ton or the highest price anywhere in the world, but
17 setting up a stable base of supply to their customers.

18 COMMISSIONER ARANOFF: All right. Well,
19 I'll look forward to further answers on that. You've
20 all argued that for various reasons the U.S. market is
21 just not that great in opportunity for the particular
22 companies that are represented here today, but I
23 wanted to see whether you would agree at a minimum
24 that the U.S. market is a very large market globally
25 even if it's not growing as fast as some other markets

1 are, and also that the prices in the U.S. market have
2 been consistently higher over the period of review
3 than reported prices in a lot of other regions. By
4 that, I don't specifically mean your home markets
5 because you've submitted evidence on that. Would you
6 agree at a minimum with those two propositions?

7 MR. DUNN: One cannot doubt that the United
8 States is a large market, and I wouldn't go so far as
9 to try to contradict that statement. I don't know. I
10 really would have to look at the prices. Yes, the
11 United States' prices have been higher than some other
12 markets. How many over the entire period of
13 investigation? I don't know. I would like to look at
14 those numbers specifically before answering
15 conclusively, but I don't think it would be going too
16 far, I don't think I'd be going too far out on a limb
17 to say that, yes, the United States market has been
18 higher than some other markets in terms of prices
19 during the course of the investigation.

20 COMMISSIONER ARANOFF: Okay. I mean, when
21 I'm referring to pricing, I'm looking particularly at
22 what we have in a global pricing section in the staff
23 report, some of which is proprietary, but that's what
24 I'm looking at. If there's something else I should be
25 looking at, I certainly welcome being pointed in that

1 direction. Thank you for those answers.

2 MR. MCCONNELL: Commissioner Aranoff, if I
3 could just add something from our perspective. I
4 think the other thing that one would need to keep in
5 mind is that if we're looking at projected growth, we
6 also have to look at projected growth in foreign
7 markets, and that's certainly something that we're
8 doing as a company pretty regularly. You know, we're
9 going to see a record number of vehicles assembled
10 worldwide this year. I mean, you know, the United
11 States is in recovery mode but there's some pretty big
12 markets out there that are growing rapidly. So to
13 make the kind of comparison you're talking about, I
14 think you also need to consider the demand segment of
15 the equation and not just assume that if there's
16 excess capacity, the only place that you're going to
17 be seeing demand is the United States. In fact,
18 there's going to be demand for that capacity as growth
19 happens outside the United States as well.

20 MR. STOEL: Commissioner Aranoff, Jonathan
21 Stoel again. In response to Chairman Okun's earlier
22 question, I did find the page. It's page 28 of the
23 Brazilian Respondents' brief. We did detail,
24 actually, for all of the major segments of hot-rolled
25 demand what kind of demand strength and forecast

1 increases we're talking about for Brazil. So not to
2 beat, you know, a drum here, but we're talking about
3 such significant increases in demand in Brazil that
4 U.S. market is a nice place, but it's simply not the
5 place that we're really looking to.

6 COMMISSIONER ARANOFF: Does anyone know
7 whether any Japanese made hot-rolled steel is being
8 used in Chinese domestic automobile production?

9 MR. AOYAMA: Chinese made? Yes. Many
10 Chinese or many automotive manufacturers in mainland
11 China is using that other materials. Japanese made
12 steel.

13 COMMISSIONER ARANOFF: Okay. All right.
14 Thank you. If you could provide maybe some
15 approximate volume on that for purposes of the
16 posthearing, that would be very helpful, and what the
17 trend has been in terms of whether it's, the amount of
18 Japanese steel used in Chinese produced cars has been
19 going up or going down. Thank you.

20 MR. AOYAMA: Uh-huh. As I mentioned in my
21 testimony, the majority were supplied by, through the
22 joint ventures. I mean that the corrosion-resistant
23 steel and the cold-rolled produced in joint venture is
24 supplied to automotive manufacturers in United States.
25 So the direct export from Japan of hot-rolled to

1 automotive industries is reported in posthearing
2 brief, okay?

3 COMMISSIONER ARANOFF: Okay.

4 MR. AOYAMA: Yes.

5 COMMISSIONER ARANOFF: Thank you. Mr.
6 Vandevert, I'm not sure if you've been asked this
7 question already. If you have, it may have been when
8 I stepped out. How difficult is it for a foreign
9 steel producer to get qualified as a Ford supplier?

10 MR. VANDEVERT: No more difficult than a
11 domestic steel supplier. Our qualification
12 requirements are completely consistent to any supplier
13 that we would be considering.

14 COMMISSIONER ARANOFF: Okay.

15 MR. VANDEVERT: Is that enough of an --

16 COMMISSIONER ARANOFF: No. I actually think
17 I asked the question wrong. You answered it, but I
18 asked it wrong. I guess what I wanted to know is
19 there's some foreign supplier out there who's desirous
20 of supplying Ford but hasn't done so and comes to you
21 and says, listen, we'd like to be one of your
22 suppliers, are you going to say, well, sure, okay,
23 we'll put you through the qualification process and
24 put you on our list, or are you going to say, hey,
25 we've got five people on our list, five is plenty?

1 MR. VANDEVERT: I think the candid answer is
2 at that moment it could be either one. I mean, we
3 could say, but again, we would say that also to a
4 domestic supplier, we could say our supply list, our
5 list of available suppliers, which always is somewhat
6 in excess of our actual supply base, is full, we don't
7 think that we need to consider anymore suppliers, but
8 if it was the situation where a particular supplier,
9 you know, did identify themselves and we were
10 interested, somewhat different from other automotive
11 manufacturers I have learned just in the past year, we
12 would put them through the qualification process to
13 have them on our supply list. We wouldn't wait until
14 there was a need for that supplier to then qualify
15 them. So, again, it doesn't matter whether they're a
16 foreign or domestic supplier. We have a process to
17 develop a list of qualified suppliers. That process
18 is the same for everyone. Then it would depend on
19 whether or not we thought we had an adequate supply
20 base to consider a particular supplier.

21 COMMISSIONER ARANOFF: Okay. Thank you very
22 much. Thank you, Madam Chairman.

23 CHAIRMAN OKUN: Commissioner Pinkert?

24 COMMISSIONER PINKERT: Thank you, Madam
25 Chairman. I just have a few additional questions.

1 Mr. Wood, you heard the testimony earlier today about
2 the quality advantage that Japan claims as against
3 Chinese hot-rolled steel and I'm wondering whether in
4 your view it's reasonable to expect that any quality
5 advantage that might exist will be diminishing over
6 time. Why don't we limit that question to the next
7 two years.

8 MR. WOOD: Okay. Thank you, Commissioner
9 Pinkert. Chris Wood. I thought it was interesting in
10 the morning that we did hear this argument that the
11 quality differential, which I think people
12 acknowledged, may diminish over time, but at the same
13 time the domestic industry seemed to concede that it
14 was transfers of technology from Japan that were
15 enabling the Chinese producers to get better, and so
16 it strikes me as counterintuitive at best to think
17 that the Japanese steel industry is going to enable
18 competitors to the extent that they will displace
19 themselves from a rapidly growing market. I think
20 what's actually going on is, as we've laid out in our
21 brief, demand in China is growing very rapidly, and
22 for the segments of that market and of the Asian
23 market, generally where the Japanese producers are
24 aimed, there is actually a deficit of the high quality
25 corrosion-resistant steel that, for example, the auto

1 makers need for that. We have the data in our brief.
2 I mean, the production in Asia has doubled, you know,
3 over the relatively recent timeframe. So I think that
4 while certainly there is technology transfer going on
5 from Japan to China pursuant to specific joint
6 ventures, those are limited, those are done in
7 furtherance of a particular strategic approach to that
8 market, and it is not indicative of some generalized
9 loss of the quality advantage which Japanese producers
10 actually do possess.

11 COMMISSIONER PINKERT: Following on to that
12 answer, can you compare the rate of growth of demand
13 in China with the rate of growth of capacity for
14 production of hot-rolled steel?

15 MR. WOOD: It's Chris Wood again. I
16 apologize. That is one I will have to take in the
17 posthearing. It is a little bit different, it is a
18 little bit difficult to draw an apples to apples
19 comparison because there are aggregate numbers about
20 demand growth, and then there are specific capacity
21 increasing projects that are either in progress or on
22 the table, and sort of where to slap those in is a
23 difficult endeavor, but we'll take a shot at that for
24 the posthearing.

25 COMMISSIONER PINKERT: And again, what I'm

1 interested in is reasonably current information, so
2 you can go back say two years, and if you can go
3 forward, then maybe two years forward as well. Thank
4 you. Now, turning to the Brazilian Respondents, I
5 noticed in your brief the argument that you have a
6 tariff advantage in selling to the Mercosur countries
7 and I'm wondering if you can explain how the tariff
8 advantage might affect your decisions about where to
9 place exports.

10 MR. STOEL: I think, Commissioner Pinkert,
11 all I can say at the moment is that obviously Latin
12 America in terms of key export markets is the key for
13 Brazilian producers, and we'd be happy to detail in
14 our posthearing brief a little bit more about exactly
15 what the Mercosur advantages are.

16 COMMISSIONER PINKERT: In particular, we've
17 heard a lot today about price differences between
18 markets and so I'm interested in whether that Mercosur
19 tariff advantage offsets any price differential that
20 might exist between the different export markets.

21 MR. STOEL: Understood, and thank you.

22 COMMISSIONER PINKERT: Thank you. Now,
23 finally, there's discussion about the limited capacity
24 of Brazilian producers to ship to the United States.
25 Either here or in the posthearing can you be specific

1 about where in the United States the Brazilian
2 producers have the capacity to ship?

3 MR. STOEL: Jonathan Stoel again,
4 Commissioner Pinkert. Could you clarify? Do you mean
5 whether there are specific regions of the U.S. that
6 would be more attractive? I just want to make sure I
7 understood the question properly.

8 COMMISSIONER PINKERT: Specific regions or
9 specific ports of entry or some sort of geographical
10 limitation on the ability to ship.

11 MR. STOEL: Okay. I think we can certainly
12 again look at, you know, outline the high capacity
13 utilization rates that I think are clear from the
14 staff report and then we could also talk about, you
15 know, the specific question you made about ports of
16 entry and things like that. No problem.

17 COMMISSIONER PINKERT: Thank you very much.
18 With that, I have no further questions for this
19 afternoon's panel, but I do appreciate not just
20 appearing and helping us to understand this industry,
21 but also the fact that you had to start very late in
22 the afternoon and continue on into the evening. So
23 it's much appreciated and I look forward to the
24 posthearing.

25 CHAIRMAN OKUN: Let's see. I'll start with

1 something I think is best handled posthearing, but
2 there's a little brief at pages 9, 18 and 26 citing
3 published sources that call into question the capacity
4 reported by subject foreign industries. I would ask
5 counsel to address that in their posthearing brief.
6 They're shaking their heads, or if you have any
7 comments, you can give them here, but I would like
8 a --

9 MR. LEWIS: Madam Chairman?

10 CHAIRMAN OKUN: Yes.

11 MR. LEWIS: If I could just quickly respond
12 to that?

13 CHAIRMAN OKUN: Okay.

14 MR. LEWIS: I don't mind probably stating
15 that there was an issue with reporting for CSN, and I
16 do want to assure the Commission that although there
17 is I think enough methodological justification for the
18 way it was recorded, we have prepared revised figures.
19 If they're not already filed today, they should be
20 filed tomorrow, and I did want to point out two things
21 about the revisions that are being made. One is that
22 the capacity utilization rates, if anything, from the
23 data that I saw this morning are improved, not
24 diminished.

25 And because of the way it's being revised,

1 the proportion of shipments represented by exports
2 actually is going to be drastically lower, which
3 should also affect the overall Brazilian figures in
4 that area as well. Inadvertently, we welcome the
5 revisions.

6 CHAIRMAN OKUN: Okay. Appreciate that heads
7 up then. I thank the domestic industry as well that
8 those changes are being filed. Mr. Lewis, we'll
9 return to the question I started out several times and
10 give you time to answer it with respect to your
11 arguments you've made with respect to how we should
12 treat the ArcelorMittal facility in Brazil.

13 MR. LEWIS: Yes, and if I might also maybe
14 address that question more broadly also to apply to
15 the Russian import situation as well.

16 CHAIRMAN OKUN: And if you could with that
17 in your response note for me whether you agree with
18 Mr. Rosenthal that there is a distinction between a
19 company such as ArcelorMittal who's on the record in
20 stating what their company policy is versus what we've
21 received from Sunstahl.

22 MR. LEWIS: Yes. If I might, I wouldn't
23 mind addressing that right now. I've heard a couple
24 of things about that. Let me start first by noting
25 what I certainly wrote done, and I hope everybody else

1 did, which was that Mr. Rosenthal publicly stated that
2 there will be no exports to the United States from
3 ArcelorMittal Brazil. That's obviously a very
4 significant point because I can't speak publicly about
5 the exact amount that we're talking about, but it's a
6 very substantial amount of Brazilian capacity that is
7 taken completely off the table.

8 There was some discussion, and this is the
9 point you were just raising, about whether
10 consideration of a related-party situation like that
11 requires some minimum amount or specific testimony or
12 supporting documentation to back it up. I think what
13 is being described as basically the Mr. Mull exception
14 that I'm hearing today, the reason why ArcelorMittal
15 is not shipping to the United States is not to do with
16 the dictates of Mr. Mull. They are due to dictates of
17 economic interest and the large investments that
18 ArcelorMittal has in the United States.

19 That logic, and this is what bring me to
20 Russia as well, there's no reason to believe that
21 logic doesn't apply to Russia in terms of the \$400
22 million investment that there is in Beta Steel or the
23 billion-dollar investment by Severstal as well. In
24 terms of the point that was raised about
25 distinguishing circumstances in which the affiliate is

1 the sole producer in the country, I think that is a
2 valid distinction.

3 It would be silly for me to argue otherwise.
4 Yes, after you take ArcelorMittal out of the equation,
5 there are two other major producers in Brazil, and
6 that's the consideration I think you need to reach. I
7 don't deny that. On the other hand, it doesn't mean
8 that you can or should ignore that fact. I think we
9 heard from Mr. Schagrin a suggestion that it might be
10 illegal for you to consider it, which I think is
11 clearly not true. It is a competitive factor, and it
12 does take that capacity off the table for the
13 Commission effectively.

14 Now, I heard for the first time today, and
15 I'd like to give further thought to that and respond
16 to this in a post hearing that notwithstanding the
17 fact that no exports will be coming from ArcelorMittal
18 that there is a series of events, sort of dominoes
19 will fall that will end up pushing imports into the
20 United States by virtue of the fact that ArcelorMittal
21 is not going to export to the United States. We'll
22 address that in a post hearing, but I think that's a
23 rather far-fetched theory.

24 CHAIRMAN OKUN: Okay. Well, I think it is
25 important to address in the post hearing because I do

1 think it relates to how one looks at capacity and what
2 the capacity is being used for and whether you can
3 slice it and dice it in that way in determining what's
4 available, so I will look forward to you briefing that
5 in greater detail.

6 Then, with respect to whether the logic is
7 the same for ArcelorMittal versus Severstal in this
8 case and the facts of this case, I think it would be
9 helpful if you would look at the new Court case and
10 some of the other cases where the Commission has
11 grappled with affiliations and what impact they have
12 and what direction we've received from the Court and
13 responded to the Court on that. I note there are some
14 distinctions among Commissioners on how we've treated
15 that, but I think it's helpful to look at what we have
16 done and how those facts are not similar to this
17 situation. It would be helpful for me at least.

18 MR. LEWIS: We'd be very happy to do so.

19 CHAIRMAN OKUN: Okay. Again, I had also
20 wanted to give counsel, and now at the end of the day
21 I forget which brief raised it, but with respect to
22 non-subject imports and the Canadian imports in
23 particular, to have you discuss your argument. I had
24 asked the Petitioners' panel if the argument is that
25 subject imports would simply replace nonsubject

1 imports if the order were lifted, and they had given
2 their response, and I didn't know if there was
3 anything you wanted to add this afternoon with regard
4 to your argument on non-subject imports. Mr. Dunn?

5 MR. DUNN: Chris Dunn. I would just refer
6 back again to our brief, and what we pointed out is
7 that if you look at the domestic industry's market
8 share over the period of investigation, it is
9 remarkably stable. It's 94 percent. There's one year
10 where it goes to 91.1, but it stays at basically 94
11 percent of the market over the period of the review.
12 What does that mean? Subject imports get knocked out
13 of the market. Canada comes in.

14 Now, I think there's an implication there
15 that the domestic market share is stable. There's a
16 stable domestic market share and an import share, and
17 subject imports are more likely to compete with non-
18 subject imports than with domestic production. That's
19 where we were going.

20 CHAIRMAN OKUN: Okay. And is how would you
21 respond if you're looking at that argument even
22 assuming one agrees with you, what prices the subject
23 imports would come in and displace the non-subject
24 imports, whether that would have an impact on the U.S.
25 market even if it's that displacement, lower prices?

1 If one thinks that the subject imports would come in
2 at lower prices than what the non-subjects are
3 currently coming in. Does that have an impact that we
4 should take into consideration?

5 MR. DUNN: Yes. It's kind of a hypothetical
6 question, but if they are lower prices than the non-
7 subject imports, they're going to take market share
8 away from the non-subject imports.

9 CHAIRMAN OKUN: Right. As you learn in
10 looking at other Commission cases, we often have to
11 look to average unit values to try to talk about that.

12 MR. DUNN: Well, again, the reason that I
13 hesitated is it's an if. If we assume that contrary
14 to everything we've said afternoon, subject imports
15 come in significant volume, and I don't think that has
16 been at all demonstrated as being likely, and if you
17 then further assume that their priced lower despite
18 the fact that, for example, the Brazil, the prices are
19 higher, somehow we're going to have an incentive to
20 price lower than non-subject imports, but if you make
21 both of those assumptions, yes, they would take market
22 share away from non-subject.

23 CHAIRMAN OKUN: Okay. Okay. And with that,
24 I don't have any other questions for this panel, but I
25 also want to thank all of you for all the many

1 responses as it goes late, and let me check on my
2 panel. I think there's an additional question. Okay.
3 Commissioner Aranoff?

4 COMMISSIONER ARANOFF: Thank you, Madam
5 Chairman. For each of the companies that's
6 represented here today, the producers that's
7 represented here today, can you just tell me when you
8 export product or when you sell product, do you ever
9 sell to global trading companies or brokers who
10 basically buy the product speculatively so you may or
11 may not know where it's going to end up going?

12 MR. ALVAREZ: May I answer? Well, I am
13 responsible for export. There are, depending on the
14 country that we export, we utilize some trading
15 companies, but never the exports are done in open
16 terms. In other words, we sell to the trading
17 company, and the trading company sells whatever they
18 want, okay? Even when we utilize a trading company,
19 we want to know what's the country, what's the final
20 customer, what's the final price, everything,
21 everything.

22 I supposed that in the past, in the long
23 past, the sales were done through trading companies
24 without knowing what's the final destination of the
25 material. In the case of CSN, in the case of Brazil,

1 always even when we utilize a trading company, we know
2 full details in full of the final customer.

3 MR. DUNN: Chris Dunn speaking on behalf of
4 Usiminas. Yes, we sell to trading companies. It's in
5 the 15 to 20 years that I've represented Usiminas that
6 I know of they have never sold to the United States to
7 a trading company who's merely holding it in inventory
8 without their knowing who the customer is at. I don't
9 want to seem to be cute because I want to make it
10 clear it's not that they're controlling that resale,
11 but they know who the customer is. They know what the
12 use of the steel is in a relatively clear sense.

13 COMMISSIONER ARANOFF: Okay. And just so
14 you have an understanding of what I'm trying to do is
15 why I'm about the record on how product from the
16 subject countries might get into the U.S. market even
17 if the companies here don't directly sell it to U.S.
18 customers, and so I'm trying to establish whether
19 there is in fact another route for the product to get
20 into the U.S. market in the event of revocation, so
21 their answers all do go to that, but if there's more
22 you want to add?

23 MR. DUNN: Well, I'll just say to Usiminas,
24 and I'm reasonably sure the same thing is true for
25 CSN, and it is that they know who the customer is.

1 They know when it's going to the U.S. market. They
2 have a pretty good idea of who the customer is or even
3 if the name of the customer, so they don't sell to
4 trading companies, let's say offshore trading
5 companies who tell us well, we don't know where this
6 is going. That doesn't occur.

7 COMMISSIONER ARANOFF: Okay. Let me go all
8 the way to the back row.

9 MR. AOYAMA: So Nippon and the other
10 Japanese steel mills are also all doing the same kind
11 of things that the Brazilian steel mills are doing
12 that we sell through trading firms, but only with the
13 detailed specification and knowledge about the final
14 usage. Without such kind of the detail you've
15 mentioned, we do not make any business with trading
16 firms, so although we sell through the trading firms,
17 but only with the detailed information about the
18 customers as well as the final usage.

19 COMMISSIONER ARANOFF: Okay. Now I
20 appreciate the responses. If there's anything you
21 want to add post-hearing, the fact that you always
22 know where the product is going to doesn't quite
23 answer my question about whether this in fact presents
24 sort of a back-door route for the product to get into
25 the U.S. market in significant quantities in the event

1 of revocation, so if there's anything you want to add
2 on that, I'd be happy to hear it, but with that, I
3 don't have any further questions. I do want to thank
4 you all for your very helpful answers this afternoon.
5 Thank you, Madam Chairman.

6 CHAIRMAN OKUN: Commissioner Pinkert?

7 COMMISSIONER PINKERT: I just have one
8 additional question for the Brazilian producers. In
9 the post-hearing submission, if you could address what
10 role you expect Gerdau and Suwapa to play in the
11 Brazilian industry and whether they're expected to
12 export from Brazil in the next year or two, I would
13 appreciate it.

14 MR. WOOD: We'll do that, Commissioner
15 Pinkert.

16 COMMISSIONER PINKERT: Thank you.

17 CHAIRMAN OKUN: With that, I think there are
18 no further questions from the Commissioner. Let me
19 turn to staff to see if they have questions of this
20 panel.

21 MR. CORKRAN: Douglas Corkran, Office of
22 Investigations. Thank you, Madam Chairman. With your
23 indulgence, we do have one question, and this is
24 directed to Mr. Aoyama. Thank you very much for your
25 testimony today. We heard a lot of testimony

1 regarding current or expected shipments of specialty
2 as opposed to commodity hot-rolled steel. Is there an
3 accepted definition of these terms, or if not, are
4 there at least common examples of specialty and
5 commodity hot-rolled steel?

6 MR. AOYAMA: Yes. First of all, I don't
7 think that we are referring to commodity hot-rolled
8 products even though the specification itself is very,
9 how to say it, low rate. For example, there's a very
10 common grade SS400 or something like that because
11 almost always when we sell our material to our
12 customers, we try to understand, as I mentioned
13 before, how they process our materials.

14 So, in a way, we help them to use our
15 material in a better way to get the good final
16 product, for example, when we sell our material to the
17 rollers or the steel processors, but when we said that
18 the high end are very early products, usually I mean
19 the high-tensile strength steel in which the demand of
20 that is increasing especially for automotive final
21 usage. I am answering to your questions?

22 MR. CORKRAN: Thank you. That does go a
23 good way toward answering the question. In the post-
24 hearing brief, would you mind addressing whether when
25 you're talking about specialty steel you're referring

1 to steel that is produced to a standard ASTM or
2 Japanese equivalent grade or not, and can you also
3 quantify how much specialty as opposed to commodity
4 steel is being sold and into which markets? Thank
5 you. Thank you, Madam Chairman, staff has no
6 additional questions.

7 CHAIRMAN OKUN: Okay. Thank you. Did those
8 in support of continuation of the orders have
9 questions of this panel?

10 MR. ROSENTHAL: No, we don't.

11 CHAIRMAN OKUN: Okay. Well, before we turn
12 to closing rebuttal, let me take this opportunity to
13 thank all the witnesses for your testimony. We look
14 forward to the post-hearing submissions and appreciate
15 your time in hanging with us as we approach 6:00, and
16 we'll give you a couple of minutes to shift places,
17 but before I do so, let me just review the time
18 remaining.

19 Those in support have two minutes remaining
20 from their direct and five for closing for a total of
21 seven minutes. Those in opposition have 14 minutes
22 remaining from direct and five from closing for a
23 total of 19 minutes. If there's no opposition, we
24 will continue with our regular course of having
25 closing rebuttal at the same time. All right. With

1 that, why don't we take a couple of moments to let
2 folks change places.

3 (Pause.)

4 CHAIRMAN OKUN: All right. We are ready to
5 proceed with rebuttal and closing statements.

6 MR. ROSENTHAL: Thank you for your record.

7 I'm Paul Rosenthal. Mr. Schagrin will have about two
8 and a half minutes of the seven. I'll speak fast. I
9 just wanted to get on record and say very clearly that
10 I do not control ArcelorMittal's decisions about which
11 markets to go into. I want to reiterate the policy
12 and process that's followed that this Commission
13 understood and which the Court of International Trade
14 understood and the very clear expectations on the
15 record, representations and policies that were found
16 in this previous case have to be found in order to
17 reach a similar conclusion.

18 I won't belabor that today, but I don't want
19 to have what I said earlier today mischaracterized by
20 Respondents, and we will elaborate further on these
21 requirements in our post-hearing brief. I do want to
22 emphasize or get back to you what the Respondents
23 emphasize as one of their key themes, which was, as in
24 their brief, change, but unfortunately, the
25 Respondents have presented a picture, a version, of

1 change that we can't believe in.

2 What's wrong with the Respondents' picture?

3 They leave out key facts. Facts that are omitted are
4 key to understanding this industry and the
5 vulnerability of the domestic industry to unrestrained
6 subject imports. Yes, it's true that the domestic
7 industry is changed from back in the late '90s. The
8 restructuring was and continues to be painful.

9 Companies were forced into bankruptcy. There were
10 layoffs. You heard about the pain that the
11 steelworkers endured and continue to endure with
12 reduced benefits and inadequate profits for the
13 companies.

14 Yes, things have changed. Some things have
15 changed, but you can go back to Slide 13 from my
16 colleagues at Skadden. You saw that the more some
17 things changed, the more some things got worse. Yes,
18 there has been change, but the industry is in worse
19 condition today than it was when this original
20 investigation started. I won't detail all of the
21 factors in that slide, but if you want to talk about
22 change, start with the fact that the industry has lost
23 a couple of billion dollars in this last year, and
24 what we're talking about now is vulnerability.

25 Indeed, while Respondents downplay the loss

1 of almost \$2 billion in 2009, and they almost make it
2 sound like we should be bawling about barely breaking
3 even as an industry in 2010, they ignore that almost
4 half of the companies in the industry in 2010 lost
5 money. This is an industry that has so well
6 restructured that it can face a declining demand and
7 unrestrained subject imports. I don't believe that is
8 the way to look at this.

9 Respondents claim that the restructuring has
10 changed everything, and they go back, and they quote
11 industry officials from the year 2007, before this
12 recession, and those quotes referred to well, now we
13 have fewer desperate producers. Those are the quotes
14 that they refer to. Well, there's still 14 domestic
15 producers facing reduced worldwide demand and
16 worldwide over-capacity, and maybe there are a few
17 desperate producers, but the restructuring referred to
18 back in 2007 didn't prevent a couple of billion
19 dollars in losses in the last couple of years.

20 It hasn't prevented the layoffs, and it
21 hasn't prevented the continued over-capacity in the
22 world that is chasing very reduced demand. It
23 certainly hasn't prevented the increased capacity by
24 the subject countries. Commissioner Williamson asked
25 the question about Mr. McConnell's chart and his

1 history of the world or at least the steel world over
2 the last decade and how do you square some of that
3 with some of the other facts that are on the record
4 that are ignored.

5 I think it might be helpful if you actually
6 went back to the staff report and Chart 5-2, which
7 also talks about the cost increases that the industry
8 has faced, and you'll see how the cost and the prices
9 explained as much, actually they explain a lot more,
10 than Mr. McConnell's explanation of what happened over
11 the course of the last decade.

12 Commissioner Lane asked about the
13 alternative analysis of profitability and asked
14 whether it makes a difference in the conclusions. My
15 view, and you may have heard this in another context,
16 but it really doesn't matter which analysis you use,
17 the industry is still vulnerable. Whether you're
18 drowning in 12 feet of water or six feet of water,
19 you're still drowning. This industry needs relief or
20 a continuation of relief. If it doesn't get it, we
21 are going to be in a worse situation, and we'll be
22 back in a 2009 situation immediately.

23 MR. SCHAGRIN: Thank you. Roger Schagrin.
24 The consolidation story that Respondents talk about
25 has now become a deconsolidation story. There were 13

1 producers from '05 to '09 in your staff report. In
2 2010, Thyssen Krupp came on. That's not a small
3 addition. It's new capacity. It's going to be 4
4 million tons fed by new slab mills in Brazil, but in
5 2011, you have the RG Group starting up. That's 7.5
6 million tons of capacity from three producers that all
7 had gone through bankruptcy previously.

8 Now, the question for this Commission is
9 does this new owner get a chance to restart these
10 three mills and recall all those workers, or do you
11 give the opportunities for increased demand in this
12 marketplace to unfairly traded imports from Japan,
13 Brazil and Russia. It's a stark choice, but it's a
14 real choice for this Commission to make.

15 Now for Ford. Look, Ford has one interest
16 in this case. They may or may not buy subject
17 imports, but they want to use their price offers from
18 qualified suppliers to ratchet down domestic prices.

19 That's Ford jobs. Just tell it like it is,
20 but while I have every use to use fairly-traded
21 imports or domestic competition to ratchet down
22 prices, they shouldn't be able to use unfairly traded
23 imports, and I'm very glad their purchasing manager
24 didn't have a chance to show up today because I hope
25 she's finding replacements for those Japanese parts so

1 that all the Ford plants, all the GM plants, Chrysler,
2 Toyota, Nissan, et cetera because we do face real
3 vulnerabilities of reductions in demand caused by auto
4 plants having to shut down because of parts problems,
5 and none of us want to see that happen.

6 Many of my clients supply Ford. This
7 industry has done horribly the last two years. No
8 consolidation has helped them. USS has lost money
9 seven straight quarters. You heard Mr. DiMicco say
10 that Nucor only lost money in four quarters in their
11 history, but three of those were 2009 and the fourth
12 quarter of 2010. When you look at total return to
13 shareholders in our post-hearing briefs, you're going
14 to see it's negative.

15 Finally, just during this hearing, we
16 received an offer from Magnitogorsk in Russia to
17 supply hot-rolled sheet delivered to use, and it's
18 \$745 a ton. This shows subject imports will come
19 back. The more imports that come back, pricing in
20 this market is all about supply and demand. Prices
21 will fall, injury will recur to companies and to the
22 workers in this industry who have suffered enough
23 already. Please make affirmative determinations and
24 continue this relief. Thank you.

25 CHAIRMAN OKUN: Thank you. Do Respondents

1 want to stay at that table, or do you want to move
2 forward?

3 MR. DUNN: Move forward I guess, yes.

4 CHAIRMAN OKUN: Okay.

5 MR. DUNN: We're happy, Madam Chairman.

6 MR. MCCONNELL: Mark McConnell on behalf of
7 the Ford Motor Company. Actually, just a quick
8 response to Mr. Schagrin a moment ago again on the
9 issue of supply-chain challenges. I would emphasize
10 that we don't see a decline in hot-rolled demand as a
11 result of that. On the broader issues, sort of two
12 points of rebuttal.

13 First, there's been throughout this hearing
14 a sort of sense that there's some inevitable magnetism
15 that steel has to find its way to the U.S. market, and
16 I talked a lot in my direct testimony about the
17 changes and the restructuring in the steel industry,
18 but the third leg of the stool that I urge you to keep
19 in mind is the revolutionary growth of markets outside
20 of the United States.

21 Our own company's plans for the future are
22 being built heavily on that fact, and any company in
23 this world marketplace that wants to survive has to do
24 so. As you think about issues like overseas capacity
25 utilization, I urge you to focus on the other markets

1 and the growth in those markets and the implications
2 for the assumption which just gets tossed around
3 sometimes by our opponents as holy writ that imports
4 are definitely going to come flooding into this market
5 because it is this market.

6 The other point of rebuttal is on some of
7 the comparisons we've heard that are quite point
8 comparisons, and I'm particularly focused on the point
9 comparisons in Nucor's brief of 2010 to 2004. I would
10 urge the Commission to look at the entire review
11 period. 2004 is a false comparison. What mattered in
12 that review was that the industry had lost money over
13 the entire review period, \$285 million, and you're now
14 looking at an industry that has made \$19.7 billion.

15 It was particularly interesting to her Mr.
16 DiMicco make this argument because I actually went
17 back and looked at the 2005 hearing testimony before
18 coming in here today, and it was Mr. DiMicco who made
19 the point that 2004 was unique and should not be used
20 as representative of the review period in your last
21 review. He even used the word "panic bind" to
22 describe that market, so I would urge you to focus on
23 the review periods as a whole, and what you will see
24 is that you have an operating margin in the current
25 review period on average of eight percent. Your last

1 time, it was minus four percent. That's the
2 difference.

3 Then, finally, on behalf of Ford Motor
4 Company, we'd like to thank you for your time, your
5 careful questions. You're clearly dealing with the
6 implications of the recession, and frankly,
7 Commissioner Williamson, your questions about
8 employment struck a chord with Paul and me. We've had
9 a lot of conversations about the downsizing at Ford,
10 the decline in real estate values in Dearborn and so
11 on. The reality is we all went through a wrenching
12 recession. If you drive around Detroit, you'll see
13 the effects of job losses there.

14 We at Ford believe that the way out is not
15 to try to recreate the conditions of the past. It is
16 to be globally competitive now. There's been a lot of
17 pain in both of our industries, but the result of that
18 has been competitiveness. We think we're world class.
19 We're planning to export a lot of cars built in the
20 United States, and we think the steel industry here in
21 the United States is world class, too. We want them
22 like us, all the way up the supply chain, to face that
23 competition. Thank you.

24 MR. DUNN: Madam Chairman, members of the
25 Commission, I'd like to close today by refocusing the

1 attention of the Commission on its task under this
2 statute. It is to determine whether material injury
3 is probable, more likely than not, not merely
4 possible. When I listened to the witnesses from the
5 domestic industry this morning, I was reminded over
6 and over of the words of Dana Carvey in the immortal
7 movie "Wayne's World," it could happen.

8 The domestic industry has told you there
9 could be a double-dip recession. It could happen.
10 There could be a drop in prices. It could happen, and
11 yet, we have shown, and you will see in our brief,
12 that global-apparent consumption is on target to
13 improve 5.3 percent this year, 2011, over 2010. That
14 would return demand levels globally for steel to
15 almost 10 percent higher than pre-crisis levels in
16 2007.

17 The domestic industry has tried to show a
18 weaker U.S. industry. It could happen, but we show
19 that the fundamental restructuring, strengthening of
20 the U.S. industry has occurred over the business
21 cycle. They lost \$2 billion in 2009. That is indeed
22 lamentable, but over the business cycle, they gained
23 almost four times that. Could 2009 happen again? It
24 could happen. Is it likely? No.

25 They identify a series of monsters under the

1 bed with respect to the foreign producers. The
2 Japanese could re-enter the U.S. market. Brazil could
3 export a lot to the U.S. Russia could switch its
4 exports markets. It could happen, but we show that
5 the Japanese industry has concentrated its sales in
6 Asia. We also show that when orders were lifted on
7 galvanized steel, Japan didn't increase its exports to
8 the United States.

9 We've shown that Brazil in concentrated in
10 its home market and in Latin America, and by the way,
11 the Brazilian mills are in fact closing down or vastly
12 reducing their export departments, and those who are
13 in there are dropping their English courses for
14 Spanish courses, and I am not making that up.
15 Brazil's capacity will be dedicated locally, so I
16 think if you concentrate on what the record shows as
17 being likely, you will find that revoking the orders
18 on these three countries is not likely to lead to
19 recurrence or continuation of material injury. Thank
20 you.

21 CHAIRMAN OKUN: Thank you. Post-hearing
22 briefs, statements responsive to questions, requests
23 of the Commission and corrections to the transcript
24 must be filed by April 15, 2011. The closing of
25 record and final release of data to parties is May 11,

1 2011, and final comments are due May 13, 2011.

2 However, I would note if the Commission does
3 not receive funding by 8:45 a.m. on Monday, April 11,
4 2011, the agency will shut down its investigative
5 activities, including these reviews, for the duration
6 of the absence of the appropriation. If a shutdown
7 occurs, the schedule for these reviews will be tolled.
8 Once the Commission receives funding and the period of
9 the shutdown ends, all schedules will resume starting
10 with the day on which the Commission recommences
11 operations.

12 If a rescheduled deadline falls on a non-
13 business day, the deadline will be extended to the
14 next business day. The Commission's website will be
15 updated to the extent practical to provide information
16 on the status of the Agency. With no other business
17 to come before the Commission, this hearing is
18 adjourned.

19 (Whereupon, at 6:12 p.m., the hearing in the
20 above-entitled matter was concluded.)

21 //

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23 //

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25 //

CERTIFICATION OF TRANSCRIPTION

TITLE: Hot-Rolled Flat-Rolled Carbon-Quality Steel Products From Brazil, Japan, and Russia

INVESTIGATION NOS.: 701-TA-384 and 731-TA-806-808

HEARING DATE: April 6, 2011

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: April 7, 2011

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

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