UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	**) Investigation Nos.:**
FORGED STEEL FITTINGS FROM	**) 701-TA-589 and**
CHINA, ITALY, AND TAIWAN	**) 731-TA-1394-1396**
	(Preliminary)

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UNITED STATES OF AMERICA

BEFORE THE

INTERNATIONAL TRADE COMMISSION

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Courtroom A

U.S. International Trade Commission

500 E Street SW

Washington, DC

Thursday, October 26, 2017

The Conference commenced, pursuant to notice at 9:30 a.m., before the Investigative Staff of the United States International Trade Commission.

APPEARANCES:

Staff:

Michael Anderson, Director of the Office of Investigations

Douglas Corkran, Supervisory Investigator

Amelia Shister, Investigator

Karen Taylor, International Trade Analyst

Tamara Gurevich, International Economist

Patrick Gallagher, Attorney/Advisor

Opening Remarks:
Petitioner (Christopher T. Cloutier, Schagrin Associates)
In Support of the Imposition of Antidumping and
Countervailing Duty Orders:
Schagrin Associates
Washington, DC
on behalf of
Bonney Forge Corporation
United Steel, Paper and Forestry, Rubber, Manufacturing,
Energy, Allied Industrial and Service Workers
International Union ("USW")

John Leone, Chairman, President, and CEO, Bonney
Forge Corporation
Douglas Young, Senior Vice President and Chief
Financial Officer, Bonney Forge Corporation
Chuck Almer, Vice President of Operations, Bonney Forge
Corporation
Ken O'Connell, Vice President and Regional Sales
Manager, Bonney Forge Corporation
Roy Houseman, Legislative Representative, USW
Roger B. Schagrin - Of Counsel
Christopher T. Cloutier - Of Counsel
Closing Remarks:
Petitioner (Roger B. Schagrin, Schagrin Associates)

I N D E X

P R O C E E D I N G S

MR. ANDERSON: Good morning. And welcome to the U.S. International Trade Commission's conference in connection with the preliminary phase antidumping and countervailing duty investigations 701-TA-589 and 731-TA-1394-1396, concerning Forged Steel Fittings from China, Italy and Taiwan. My name is Michael Anderson, I'm the director of the Office of Investigations and I'll preside at this conference.

Among those present from the Commission on the team are, to my far right, Mr. Douglas Corkran, our supervisory investigator, our investigator, Amelia Shister. And then we have walking in on cue our attorney, Mr. Patrick Gallagher. And on the left, we have Tamara Gurevich, our economist, and our industry analyst, Karen Taylor.

I understand the parties are aware of their time allocations and I would remind speakers not to refer in your remarks to any business proprietary information and to speak directly into your microphone.

We also ask that you state your name and your affiliation, beginning your presentation, and any time you speak, speak into the microphone for the benefit of the court reporter.

Any questions regarding time allocations should

be addressed to me, and I understand that there are no questions. Is that correct? Okay. Thank you.

So with that, we'll move to opening arguments. Mr. Cloutier, you have five minutes.

OPENING REMARKS OF CHRISTOPHER T. CLOUTIER

MR. CLOUTIER: Thank you.

Good morning, Mr. Anderson and Commission Investigative Staff. I am Chris Cloutier of Schagrin Associates and here today on behalf of the two Petitioners, Bonney Forge, the largest U.S. producer of forged steel fittings, and the USW, which represents the company's workers.

We filed these petitions because unfairly traded imports are destroying the U.S. forged steel fitting industry and its jobs. At the rate the domestic industry is hemorrhaging money and workers, it will not be long before there is no production of forged steel fittings in the United States.

The record for the preliminary determination is clear. Forged steel fittings are used primarily in the oil and gas industry. A good proxy for their consumption is the domestic rig count which declined significantly over most of the period of investigation. This means for most of the last several years, Bonney Forge and its workers have been battling for their piece of a shrinking pie.

Rig count increased in 2017, but this modest improvement provided little relief to Bonney Forge. Subject imports jumped by more than 75 percent on an absolute basis between the interim periods.

In particular, subject imports increased from approximately 12,000 to 21,000 short tons, also reaching new heights in terms of market share.

How did subject imports gain market share? By underselling everybody else, including Bonney Forge.

Comparing the domestic industry's commercial sales with landed, duty paid values for subject imports reveals consistent underselling by wide margins throughout the period of investigation.

Underselling was especially apparent during the interim period, when subject import volumes surged and unit values dropped by approximately 18 percent, from about $4800 per ton to about $3900 per ton.

The consequences of surging volumes of low-priced subject imports for the domestic industry are not hard to guess. Bonney Forge's profitability took a huge hit and the company was forced to reduce the number of workers, the number of hours worked and wages. Capacity utilization also tanked, as subject imports took a bigger and bigger share of the U.S. market.

When demand eventually began to show some signs

of improvement, subject imports dropped in price and surged in volume. This prevented U.S. producers from raising prices in light of growing demand.

It also prevented them from recalling employees and raising production in line with this growth in demand.

The resulting material injury is evident from Bonney Forge's profitability, capacity utilization and employment trends.

Although this is not a threat case, a few words are appropriate, especially with regard to China. Although there's not much information available about the Chinese forged steel fittings industry specifically, it's well known that China has massive overcapacity for all steel products. We also know that the Chinese subsidiary of Taiwanese producer Both-Well advertises that it exports more than 65 percent of its output.

China is not alone in causing material injury, nor is it alone in threatening additional material injury. Like China, Taiwan exports most of its steel production and has considerable excess capacity. Italy's steel industry is also export-oriented and in fact exports more than 70 percent of its production.

All of this means that the material injury being suffered by the domestic industry is only going to get worse. So in sum, the domestic industry is suffering from

current material injury. Profits, employment, capacity utilization and a host of other indicators are all down, and it is clear that subject imports, which undersold the domestic industry and increased their market share even when the market was declining, are the cause.

For this reason, we ask that the Commission make a preliminary affirmative ruling so that the domestic industry can obtain the relief from unfairly traded imports to which it is entitled under the law.

Thank you.

MR. ANDERSON: Thank you very much.

Now we'll proceed to direct testimony in support of imposition of antidumping countervailing duty orders.

Mr. Schagrin and associates, you have 60 minutes. Please proceed.

And I would like to thank our witnesses for being here today and look forward to your testimony.

STATEMENT OF ROGER B. SCHAGRIN

MR. SCHAGRIN: Thank you, Mr. Anderson, members of the Commission Staff. For the record, my name is Roger Schagrin. This morning you will hear from a panel of executives from Bonney Forge who collectively have about 100 years of experience in this industry. You will get an overview from the chairman, president and CEO of the company, who has an incredible amount of expertise on not

only these products but the energy industry in general.

You will hear from the company's vice president of operations, who can tell you everything you need to know about how these products sitting over here to our left are manufactured and about the specifications that they are made to.

You will hear from a vice president of marketing of the company as to how these products are distributed, their channels of distribution and the competition from subject imports that the company faces.

You will hear from the company's chief financial officer, and you will hear from a representative of the union that represents the workers at Bonney Forge and is also a co-petitioner, a union whose working membership at the company now has approximately half of their workers on -- still on layoff.

With that, let me introduce John Leone, the chairman, president and CEO of Bonney Forge.

STATEMENT OF JOHN LEONE

MR. LEONE: Good morning, Mr. Anderson and members of the Commission Investigative Staff. For the record, my name is John Leone. I am chairman, CEO and president of Bonney Forge. Bonney Forge was founded in 1869 to make hardware for horse-drawn carriages. It shifted back and forth over its history, producing forged

ordnance for the military during World War I and World War II.

It then for a period manufactured forged hand tools. Since World War II, the company has focused on forged steel fittings and valves.

Personally, I graduated from Penn State University with a degree in petroleum and natural gas engineering, and worked for Gulf Oil on Lake Maracaibo in Venezuela. Then I moved to the States and worked for a company called Taylor Forge, a producer of energy-related products.

After Taylor Forge, I purchased Bonney Forge in 1984 from the conglomerate Gulf and Western.

Bonney Forge is located in Mount Union, Pennsylvania, where we built a completely new plant in the 1990s. We now have under roof over 300,000 square feet of manufacturing and warehouse space, and we are the largest manufacturing employer in Huntington County.

At the peak, just a few years ago, we employed 428 employees at the plant and our corporate offices.

As you will hear from my colleagues today, the vast majority of our business is energy-related, either oil, gas or power generation. Given the energy nature of our business, it's not surprising that we are subject to the cyclicality of the oil and gas business.

I've seen a lot of cycles in the energy industry throughout my career, changes in oil and natural gas prices have an impact on the rate count, and therefore on our business.

I have two comments on the most recent energy cycle. First, it is now clear that for the first time in decades, the United States has enough oil and gas to satisfy our demand. We will not experience any energy shortages in the future.

In the past the energy cycle was closely related to U.S. and worldwide demand served by a somewhat limited energy supply. Now that is -- that is no longer the case, recognizing that worldwide there is enough energy available to satisfy any changes in demand.

The second point I would like to make is about -- about energy cycles is that we have seen a big change in the supply of manufactured products that support energy drilling on a worldwide basis.

In the past, stemming from the discovery of oil drilling in the state of Pennsylvania, and until very recently, the United States dominated the manufactured products utilized in energy, exploration and development.

However, today, worldwide, there is an excess capacity to produce our product.

During this most recent upcycle for drilling, we

saw the rig count recover from a low in the 400s in early 2016 to a current level in the high 900s.

Today we are seriously concerned that our volume, our employment and our profits do not join in this recovery.

Our customer base is comprised of large and small distributors on a national and regional basis. These customers serve the up-, mid- and downstream segments to the oil industry, have chosen to shift much of their business to offshore suppliers, like the Chinese, the Italians and Taiwanese.

They are buying fittings at prices lower than ours.

Over the past couple years, we have had distributor after distributor tell us that they are shifting their purchases offshore. Faced with this significant loss of market share, I decided that it was time for Bonney Forge to determine whether our offshore competition was fair and if we needed to take some action.

As we prepared to file these cases, we decided to reach out to our major customers to give them a heads-up about what we were doing.

One of our major customers told us, what took you so long? Flange and butt weld fitting guys have already taken action.

My family, which owns the business, is totally committed to Bonney Forge. Throughout the years, we have invested heavily in new equipment, including robotics, to increase productivity, to produce better quality products and to improve our workforce through training.

Our capital investments has always been higher than our depreciation, oftentimes two to three times more than our depreciation.

We have had the United Steel Workers as our organizing union for decades, and we have a great relationship with our workforce. We are pleased that the union has decided to join with us to co-petition in these cases.

Co-petitioning in these cases are an absolute future for our company, our employees and our community. We recently completed a new labor contract that we made, made the difficult change from a defined benefit plan to a 401(k) retirement plan. However, the company and workers agree that this change was appropriate for the changing competitive conditions.

As I am sure you can tell, my family and our employees are committed to the growth of our company, and we believe in fair trade, not free trade.

Accordingly, we ask you to analyze the facts that we will put together -- that you will put together for

your investigation and to conclude that Bonney Forge and our valued employees have been injured, injured by the mass increase of unfairly traded forged steel products in the United States.

Thank you.

MR. SCHAGRIN: Thank you, Mr. Leone.

Our next witness is Chuck Almer, the vice president of operations.

STATEMENT OF CHUCK ALMER

MR. ALMER: Good morning, Mr. Anderson and members of the Commission Investigative Staff. For the record, my name is Chuck Almer, and I am vice president of operations for Bonney Forge Corporation at its Mount Union facilities. I have been with the company for 27 years.

At our Mount Union plant, we purchase steel bars from U.S. and Canadian plants. I know that we don't suffer from any disadvantage on raw material side vis-a-vis our foreign competitors because I can assure you that these suppliers have state-of-the-art equipment and are extremely efficient bar producers.

After receipt of and inspection of the raw materials, we then cut these bars into varied lengths, depending upon the finished fitting that we are going to manufacture. Common steps in the production process for forgings include heating the bars in an induction furnace

to approximately 2300 degrees, forging the product and trimming the excess material, or also known as flashing.

We have a variety of forged press equipment to accommodate the wide range of products configurations and materials we produce.

After the forgings are produced, they are staged for production in the machine shop, where they are manufactured into their finished product type. Common steps included for the manufacture of the finished fittings include blasting the rough forgings with steel shot, drilling, boring, threading, socket boring and stamping the finished product.

We have a variety of rotary transfer machines to accommodate the different sizes and types of fittings we produce. Due to the potential critical service application these fittings could be exposed to, we first piece inspect 100 percent of every work order that goes to the floor, and we have ongoing roving inspectors throughout the process as our ISO 9001 quality systems manual dictates.

All product is also marked with the unique lot number which is fully traceable to the original mill heat number for the raw material produced by the steel mill.

Finally, we process the fittings through a state-of-the-art wash and coating line, where the fittings are cleaned, coated with a zinc phosphate and lightly oiled

for product preservation.

The finished product is then packaged and placed in our finish goods warehouse, where they could be assigned to customer orders, pulled and shipped to our distributors.

Product certifications are also made available as required by the order that depict a full detail of all the chemical and physical properties of every fitting we produce.

Our fittings are all produced to recognized industry standards and specifications, which include ASME B16.11, MS SP-83 to name a few.

For carbon steel fittings, they are produced to in accordance with ASTM A105 specifications and our alloy fittings are made in accordance with the ASTM A182 specification.

The vast majority of our fittings are produced in the process I just described from rough forgings. However, a portion of our fittings are also machined directly out of steel bar. These fittings are also manufactured in accordance with the previously mentioned industry standards and material specifications. Although not from a forging.

To the best of my knowledge, all domestic and imported forged steel fittings are made to the same ASME and ASTM specifications.

As Mr. Leone has mentioned, Bonney Forge has constantly reinvested in the plant during my 27 years with the company. We have excellent equipment both in the forging and finishing operations. We also have an excellent relationship with all of our associates in the plant, and both USW members and management treat the plant as one family, working towards success for the company.

When the energy market was booming and times were good, just a few years ago, we were almost at full capacity. Unfortunately, now we are at one-third. That is tough for our workers because they are -- there are not a lot of other similar employment opportunities in our county and rural Pennsylvania.

Given this situation, I can assure the Commission that leveling the playing field against our foreign competitors isn't going to harm our customer base, because we have the ability to greatly expand our production to meet increased demand for domestically made fittings.

Thank you for the opportunity to testify today. I look forward to answering your questions.

MR. SCHAGRIN: Thank you, Mr. Almer.

Our next witness is Douglas Young, senior vice president and chief financial officer.

STATEMENT OF DOUGLAS YOUNG

MR. YOUNG: Good morning, Mr. Anderson and members of the Commission Investigative Staff. For the record, my name is Douglas Young, and I am the senior vice president and chief financial officer of Bonney Forge Corporation.

I've been with Bonney Forge for 11 years and have 40 years of experience in the steel business.

Bonney Forge has been a largely self-financing corporation during most of the time that I've been at the company. Although we have tapped the debt market with private placements from banks, primarily related to an acquisition in 2013, we have no publicly traded debt.

As Mr. Leone has described, Bonney Forge basically has two business lines, valves and forged steel fittings.

One thing I can tell you for sure, and as you can see in the questionnaire response I put together for the Commission, our company could not exist on the basis of just our forged steel fittings business alone, given the massive pressures on our volume, prices and profits caused by the decline in oil prices a couple of years ago and then made worse by these unfairly traded imports.

Basically, our valve business is carrying the forged steel fittings business today. This is extremely unfortunate, because, as you've just heard, Bonney Forge is

the industry leader in forged steel fittings in the United States, and the company has consistently reinvested in its fittings business with the best equipment available.

We also have an excellent workforce, and in a period of recovering demand, there is simply no reason other than the unfairly traded imports why Bonney Forge's forged steel fittings business shouldn't be doing very well.

Therefore, today I join my colleagues in asking the Commission to make an affirmative preliminary determination of injury.

Thank you.

MR. SCHAGRIN: Thank you, Mr. Young.

Our next witness is Ken O'Connell, vice president, regional sales manager.

Mr. O'Connell.

STATEMENT OF KEN O'CONNELL

MR. O'CONNELL: Good morning, Mr. Anderson and members of the Commission Investigative Staff. For the record, my name is Ken O'Connell and I am the vice president and regional manager for Bonney Forge Corporation. I've been with the company for 20 years, and I have 40 years' experience in the forged steel fitting business.

Our corporation is a very flat and efficient.

At Bonney Forge, we have four regional sales vice presidents who work with each other as a total marketing team and we all report directly to Mr. Leone. Each of us has various sales assistants. I am responsible for the northeast and the southeast regions.

Forged steel fittings are sold almost exclusively through distributors. And let me explain the distribution networks.

There are a handful of national pipe, valve and fitting distributors, such as MRC, DNOW and Ferguson, who have literally hundreds of branches throughout the United States.

In addition to these national distributors, there are also regional distributors who have dozens of branches in any particular region of the country.

Then there are hundreds of independent distributors. They generally have just one or two distribution warehouses, and they will either buy directly from manufacturers or they will buy from a handful of master distributors.

These master distributors serve only independent distributors as regional and national distributors always buy direct.

U.S. producers and either foreign producers or trading companies sell basically in the same way we do to

this distribution network. At Bonney Forge, we have always sold off of a published price list, and we use a multiplier to then discount from that price list.

Unfortunately, the last time we increased our published prices was in 2011, but we have lowered prices through bigger discounts off that list price repeatedly over the last few years.

In the past year to 18 months, the market started coming back from the huge drop in drilling, but I have heard repeatedly from distributors that they were getting better prices from foreign sources.

We have not been able to meet these import prices from China, Italy and Taiwan because we wouldn't be able to cover our own costs.

I would say in the past two years, Bonney Forge has lost more market share to imports than any other time in my career.

As Mr. Leone testified, this is just not a situation that we can allow to go on unabated or else we're not going to have the opportunity to thrive, flourish and reinvest in our equipment and people to make sure that Bonney Forge continues as the U.S. leader in this industry.

Thank you for your time today, and I'll be happy to answer your questions. Thank you.

MR. SCHAGRIN: Thank you, Mr. O'Connell.

We are pleased that Larry Houseman from the USW Washington office was able to join us and testify on behalf of the workers in the industry.

Mr. Houseman.

STATEMENT OF LARRY HOUSEMAN

MR. HOUSEMAN: Good morning, Mr. Anderson and Commission Investigative Staff. For the record, my name is Larry Houseman, and I'm a legislative representative for one of the Petitioners, United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industry and Service Workers International Union, or the USW.

We represent the production workers who make the domestic like product at the Mount Union facilities of the other petitioner, Bonney Forge.

The USW partnered with Bonney Forge to petition for relief because subject imports have been gaining market share and in the process taking jobs away from our membership.

As you saw in the company's questionnaire response, the number of jobs lost has been staggering.

As Mr. Leone testified, Bonney Forge just a few years ago employed nearly 300. The number of workers today is just a fraction of that. We are well below 100 bargaining unit members now.

This has been devastating for our members.

Every single one of those lost jobs creates a family facing a financial crisis. And while the facility qualified for trade adjustment assistance and the Department of Labor found that imports of products produced at Bonney Forge have increased, illegal trade practices should not force workers to seek new careers.

As I am sure you have come to understand through the waves of cases involving steel products in recent years, there has been a decline in well-paying manufacturing jobs in western Pennsylvania.

Additionally, for our members who are fortunate enough to remain employed, many are working fewer hours and bringing home less money for their families.

We at the USW were pleased to partner with Bonney Forge in bringing this case. As Mr. Leone testified, we recently created a new labor contract that involves moving our members from a defined benefit plan to a 401(k) retirement plan.

We were certainly not eager about this change, but the company and our workers are in a fight for the company's survival, and we need to be a responsible partner.

The company's losses from dumped and subsidized imports left little choice. On behalf of the workers in the industry, we hope the Commission reaches an affirmative

determination, and I look forward to answering any questions you may have.

Thank you.

MR. SCHAGRIN: Thank you, Mr. Houseman.

And that completes the domestic industry testimony.

We'd be happy to answer your questions.

MR. ANDERSON: Thank you, Mr. Schagrin. And thank you to our witnesses for being here today and coming to Washington, taking time out of your business.

We would like to now turn to questions from Staff. We'll start with our investigator, Ms. Shister.

MS. SHISTER: Thank you.

Good morning, and thank you for your time and your testimonies, your comments have been very helpful in understanding the product and the market and how it works.

So a few questions. Just to start off, please feel free to address any of these questions further in the postconference brief if needed, especially if you need to go into BPI.

So starting with production, so do producers that produce forged steel fittings also produce -- tend to produce other types of fittings, such as butt weld or flanges, and can the same equipment generally produce the different kinds of fittings?

MR. ALMER: I'm sorry, Ms. Shister. Could you repeat that? Could the machinery produce other types of fittings?

MS. SHISTER: Right. Or is it limited to just these specific forged steel fittings?

MR. ALMER: Our machinery is limited to our product range that we provide in the market.

MS. SHISTER: And then is there also any -- can the machinery switch from these -- the forged steel fittings to valves or is it just --

MR. ALMER: It's just fittings.

MS. SHISTER: Okay. Are there certain types of technologies, I know you all mentioned robotics, that are significantly more efficient and that have come about in the past few years?

MR. ALMER: This is Chuck Almer. And the robotics has been provided productivity improvements. Unfortunately, you need the volume, and with less volume, you're not achieving your productivity expectations.

MS. SHISTER: Thank you. So the initial scope that was submitted with the petition included fittings, and I know you mentioned this as well in your testimony, fittings that are not forged but instead are machined directly from bar.

Can you describe the machining process that

would make these fittings unique beyond just the fact that they are forged steel fittings?

MR. ALMER: The process for making fittings that are not forged is very similar to the forging process, except for the fact that the raw material goes into the machine and it is drilled and threaded and socket bored and stamped. It's just not -- it's starting from raw material instead of forging.

MS. SHISTER: I mean, is it significantly more labor-intensive or -- I'm just trying to understand why nonforged product is part of forged steel fittings, in terms of the scope.

MR. ALMER: The key is the raw material. The raw material is -- meets the specification. Raw material is really -- in the production of the raw material is somewhat forged. You know, they melt the steel, they cast a bloom or billet, and then they reheat those billets and form it into round bar. We use all round bar.

So the material, raw material meets the specification.

MR. SCHAGRIN: Ms. Shister, just to clarify, because I think what I know the Commission is looking for, even though I'm far from an expert.

If you think about, and that's why we brought these samples, if you think about the shapes of the

fittings, so if the shape is just elongated, with no bend, such as, I guess, a coupling, and it's just long, there there's no reason to put it into this die to forge it in the shop, because you don't need to change the shape, you can just take the bar and essentially drill it out, because you're already starting with something with the same shape as the bar itself.

But if you look here at these samples, you know, when you get to a T or an elbow, imagine this straight bar coming into the plant, it's got to be forged in this die to change the shape of the bar into the desired, you know, shape of the fitting.

And so that's why you wind up with this family of forged steel fittings, about half or two-thirds of which are in shapes that have to be changed in a die process, forging process in the plant, and about another third or so because they are remaining straight that are just made by drilling out the bar.

Does that help explain it? That's how I tried to get my arms around that issue of having forged steel fittings that aren't forged at the plant.

MS. SHISTER: Yes, that is very helpful. Thank you.

Sorry, Mr. Almer, did you have more?

MR. ALMER: Chuck Almer. We brought samples. A

bar, straight bar, you cannot make a fitting without forging this shape.

This, on the other hand, is a hex bushing, and this can be made directly from bar, where you can just turn it, drill it, stamp it, build the hex head on it.

MS. SHISTER: Great, thank you.

So looking at some of the end use, so you all mentioned the oil and gas industry as one of the end markets.

Are there other end markets, I'm thinking maybe like mechanical, any other end markets for these forged steel fittings?

MR. LEONE: This is John Leone. This product is required because of the critical nature of the service specs. It's oil and gas at different pressures and temperatures, and we also supply to the power industry, to power plants.

There are times, and it's modest, small, that we would supply to a contractor through distribution that is building a schoolhouse, that has boiler, so there's steam associated.

So all of our products go into critical, very high critical concerning the application, and that's why the quality is so important that we maintain.

MR. SCHAGRIN: And this is just to clarify. You

know, within that umbrella of energy, so a lot of these products upstream directly next to the wellheads where the oil and gas comes up, you see piping systems that are essentially processing what comes up, dividing up the different things that come out of the well, and that's where a lot of these products are used.

Then in the transmission of energy, you also have these fittings being used in the piping systems.

And finally, where the energy is utilized in plants such as refineries, petrochemical facilities, sometimes chemical facilities, such as ethylene cracker plant, then you also have these products being used.

As Mr. Leone said, they are used where you have very critical uses different from but similar, depends on the engineering, flanges and butt weld fittings are also used in piping systems in the energy industry and in other industries. And it's really the engineering specifications that determines when the end user is deciding what to use, what they have to use.

And then the distributors that Mr. O'Connell talked about, all of those pipe valves and fittings distributors would carry forged steel fittings, flanges, butt weld fittings.

Maybe we didn't clarify as to one of your earlier questions. Bonney Forge's equipment is not capable

of making flanges or butt weld fittings, and we don't think within the U.S. industry that there's any overlaps between the manufacturers of flanges and butt weld fittings and the manufacturers of forged steel fittings. And even if there were, the equipment is just completely and totally different to manufacture these products compared to those other products.

MR. LEONE: John Leone. To add to that, our products are manufactured up through 4-inch, in 4-inch piping systems. 4-inch piping systems are either threaded or socket welded.

As you get into the larger diameters, flanges and welding fittings is the product that's being used. But they're in the same -- they could be in the same piping systems. It depends upon the diameters of the application.

MS. SHISTER: Thank you.

So looking at going back to some of what was described in the original scope and also mentioned during testimony is the different specifications that these fittings are manufactured to, the MSS and the ASTM specifications. And the ASME.

Can you elaborate a little bit more on the nature of these specifications? Because I know the scope also mentions that in-scope product may not necessarily be meeting these specifications, and specifically, if a

product is not meeting these specifications, is it because it's an import, is it because it's not interchangeable, that nature?

MR. SCHAGRIN: This is Roger Schagrin. I'll tell you because it's kind of a lawyer type question, because these gentlemen know that their products are governed by specifications for forged steel fittings, and the specifications are unique to forged steel fittings.

All of the imports in the United States at the present time, to the best of our knowledge, are made to the exact same specifications that the domestic industry produces to.

The only reason that we the legal drafters of scope add language saying the scope is not limited to these specifications is that we have experienced in the past that in foreign countries, they may produce to national specifications that may be virtually identical to these U.S.-based specifications, and we've had a problem where we initially limited our scope to just the U.S. specifications for products, in fact I had an issue recently in another case where one made an identical product but certified it only to a Chinese specifications, and said, oh, we're not subject to the scope, this was an older case. They said we're not subject to the scope because that scope said that the products covered by the scope were made to these

specifications, and we're not made to that specification, we're made to a different specification.

So this language isn't really reflective of the current situation in the U.S. market, but it is more meant to prevent future circumvention by someone making a product and entering it through U.S. Customs that just made to -- and I know I said identical specification from a foreign country, and then claiming that it wasn't subject to the scope.

And we do now have in the United States, a little bit to my surprise, we actually have Chinese companies that have bought U.S. oil and gas exploration companies, and we even have Chinese drilling companies then supporting those Chinese-owned exploration companies here.

We don't want to give them the opportunity to say, oh, well, we're selling these products to our own specifications because that's what our drilling companies are used to in China.

So I hope that answers your question. It's a little bit of a technical situation. In reality today, the distributors of these products on a nationwide basis are just handling forged steel fittings, whether imported or domestic, made to these common specifications, and all of the products, import or domestic, because of the nature of the distribution system and the usage by end users, are

made and certified to these specifications at the present time.

MS. SHISTER: Thank you. Sort of going along with that, though, are there instances when forged steel fittings that are imported would not be considered interchangeable either with each other or with the domestic product?

MR. SCHAGRIN: No, because it's all about specification. That's what the user wants, and it's up to the distributor to make sure that everything they're stocking meets specification and thus is salable to the users.

MS. SHISTER: Thank you.

So now moving on to distribution can -- I would say it question is directed primarily at Mr. O'Connell. Can you describe a little bit the relationship with distributors? Are there specialty loyalty programs? And has this changed at all over the past few years?

MR. O'CONNELL: Ken O'Connell. Loyalty between manufacturers and distributors are typically long-term relationships.

Over the last few years, with the introduction of cheaper import products, it has strained those relationships, basically due to pricing.

MS. SHISTER: But there aren't any sort of

rebate programs or anything like that?

MR. O'CONNELL: There can be.

MR. SCHAGRIN: If you like, Ms. Shister, because for every producer of those programs, loyalty rebates are business confidential, we can give you more information about Bonney Forge's programs in our postconference brief.

MS. SHISTER: I'd appreciate it, thank you.

In terms of downstream products, because there is the rough forged fitting and then the final machined fitting, is there import competition in the further processed downstream product or do you see mostly rough forgings?

MR. O'CONNELL: I would say mostly in the finished product, across all sectors.

MS. SHISTER: So to the best of your knowledge, understanding that you work primarily through distributors, what kind of companies are the ultimate purchasers of these products?

MR. O'CONNELL: I'm sorry, I missed -- I didn't understand.

Oh, the ultimate end users? For example, Exxon, Chevron, Shell, Marathon, major oil and gas companies.

MS. SHISTER: Are there any instances where you would not be working through a distributor and instead would be going directly through the firms?

MR. O'CONNELL: No.

MS. SHISTER: To the best of your knowledge, are there any preference programs that would prioritize domestically produced forged fittings, such as a Buy America program?

MR. O'CONNELL: Ken O'Connell. There are end user approved manufacturers lists that specifies specifically certain manufacturers that they are willing to accept.

MR. SCHAGRIN: Just to clarify, no Buy America. It's just there are some -- some of the older, bigger exploration companies who have approved manufacturers lists -- and both foreign and U.S. producers are on those lists. And then probably the vast majority of users, because we've had a big shift with the advent of shale drilling, most of the drilling in the shale areas today is not done by majors but is done by medium-sized or independent drilling companies.

So we've had a big shift in drilling in this country, 20 or 30 years ago most drilling in the United States was done by the big six major oil companies. Today most of the drilling in the United States is done by medium or small independent drilling companies.

MS. SHISTER: Thank you. So looking over -- moving over to some of the employment issues that were

brought up, and once again, if I'm touching on BPI, please feel free to address this in a postconference brief.

Can you elaborate a little bit more on the ratio of the workforce in terms of who is a USW member and who is a nonunion worker, and is it just sort of office versus working on the floor?

MR. ALMER: Hi, this is Chuck Almer. Yes, we have SG&A, so our sales, engineers, accounting personnel, product engineering are not considered part of the USW.

MS. SHISTER: Do you have any people who are doing the actual forging and machining who are not part of USW?

MR. ALMER: No.

MS. SHISTER: Okay. Thank you. And possibly in your postconference brief, could you just discuss the role of automation and how that has potentially impacted the workforce, understanding that that may be BPI.

MR. ALMER: This is Chuck Almer. Touched on that a little bit before. We started investing in robotics in our machine shop, and -- but it's very sensitive to volume. Since our volume has been a third of what is -- what it is, you don't see the necessary return on investments as expected.

MR. SCHAGRIN: I'll just clarify, and we'll amplify it in the postconference brief. But the employment

losses at Bonney Forge have been directly related to the reduction in production, not to USW workers being replaced by robots.

So while the company throughout its history has invested in order to increase productivity, the present layoff situation is directly related to lost production and in turn, lost market share. Obviously, in this case you're going to see from '14 to '16 demand dropped, along with the decline in the energy industry, even though imports gained market share as the market was declining. And then in '17, you're going to see a pretty significant rebound in overall demand, along with the rebound in the energy industry, but not a rebound for Bonney Forge's production, because unfairly traded subject imports have taken virtually all of the increase in demand in the interim period.

MS. SHISTER: Thank you. To the best of your knowledge, are there any antidumping or countervailing duty orders in third country markets?

MR. CLOUTIER: This is Chris Cloutier. To the best of our knowledge, no.

MS. SHISTER: Thank you. So now I also have a few questions on behalf of our financial analyst, Jennifer Brinckhaus, who is unable to participate today. So once again, please feel free to address any of these questions in postconference briefs.

So has the product mix of forged steel fittings sold during the POI 2014 to June 2017 changed in any significant way? In other words, would we expect to see a change in the average unit values because there was a change in the mix of fittings being sold?

MR. O'CONNELL: Ken O'Connell. And I'm sorry, I thought that was going to be a financial question for Mr. Young.

MS. SHISTER: Has the product mix of the forged steel fittings that have been sold from 2014 to June of 2017 changed significantly at all that would potentially lead to a change in the average unit value because of the change in the mix of product being sold?

MR. O'CONNELL: Yes. Specifically our upstream market that had taken a downward trend in about the fourth quarter of 2015, we did make larger fittings in the 3- and 4-inch range that pretty much disappeared.

MR. SCHAGRIN: Just to clarify, Ms. Shister, because we did talk about this because we knew it's always of interest to the Commission.

So over the period of investigation, given the change in the contribution overall demand of what we would call the upstream at the wellhead versus, let's say, the downstream at -- which is basically replacement work at current facilities, at these refineries, I think we built

one new refinery in the past 20 years in this country, that's a different issue. But refineries, petrochemical plants, chemical plants, they are constantly, because of the high pressures, they have to do repair and maintenance for safety reasons.

So that demand, what you call the downstream area, is fairly steady. They are always having to repair and maintain these plants.

At the upstream, at the wellhead, that is totally sensitive to the changes in the number of wells being drilled, because every time a new well is being drilled, you need a piping system right there at the well platform area in order to process what's coming up out of the ground. And that's changed.

But one important point is that between 2014, when the rig count was at about 2000, and 2017, where we came back from the 400s back into the 900s, you had an overall change in the product mix.

However, that change in product mix was for demand in the United States, so that the subject imports and the domestic industry would have experienced the exact same change in product mix.

So we think throughout the POI, you have an apples-to-apples comparison overall, comparing, say, average unit values of imports to the domestic industry,

you would, though, see for both imports and for Bonney Forge and the rest of the domestic industry, a change in product mix that's reflective of the change in the products that are used at the wellhead versus the products used in what they would call the midstream and downstream segments of the market, which have been much steadier.

I hope that satisfies your question. If she has any additional questions that she wants us to address in postconference, we can do that as well.

MS. SHISTER: Excellent, thank you.

So historically, what would a company expect to see for gross profit margin and what would be considered an acceptable gross profit margin in this industry, and when was the last time that the firm was able to achieve this level of profitability? And once again, this may be BPI.

MR. YOUNG: Yeah, this is Doug Young. I think talking about the absolute profit margin levels is probably confidential and we don't -- we can supply that information in the postconference brief. However, what I could say is there's no question that there has been a substantive decline from, say, the 2014 period into '15 and '16. And it goes to a large degree to the fixed costs of the manufacturing operation.

So when you've got costs that are fixed and you're producing less quantity, lower -- less production,

less sales, you know, your overall profit margins are going to decline because of fixed cost.

MS. SHISTER: Thank you. That is the last of my questions for now.

MR. ANDERSON: Thank you, Ms. Shister.

I will turn it over to Mr. Gallagher.

MR. GALLAGHER: Thanks. Patrick Gallagher from the Office of General Counsel. I only have a few questions.

The first one is on rig count as a surrogate for demand. Everything you're describing describes something other than the rig count, all the mid-level stuff. And we've had testimony in other cases recently that I participated in so it's fresh, that rig count can or can't be a reasonable surrogate. It all depends on exactly what you're talking about in terms of the period of time, right. And the argument there was about pipe, and their argument was rig count wasn't a good surrogate because of all these mid -- mid-level or downstream maintenance activities which were going to increase, even though rig count was roughly stable or declining.

Could you comment on that for me, please?

MR. SCHAGRIN: So here the reason rig count is a pretty good surrogate for changes in demand is that the change in demand for the products is immediate with the

change in the rig count. Every time a new well is drilled, these products are utilized.

So that gives a great indication of the changes in demand. The midstream and downstream uses are really just pretty steady. The midstream is also affected by the rig count, because if you're opening up new fields, like a new shale area, you're going to utilize more product in the midstream.

It's the downstream that's, let's say, always steady. I mean, we have -- I wouldn't want to estimate, let's say in the United States of America, we have a total of 350 refineries, petrochemical and ethylene type plants. Pretty much every year, the same amount of maintenance is going to be done on those present plants. We might add sometimes, particularly some of the new petrochemical plants, it's a big deal if we would add two or three new petrochemical plants in a year, and that would utilize more of these products as one is being built.

But -- so if you think about it, Mr. Gallagher, you have a certain segment of the demand here which is steady, and then you have two other segments which are totally sensitive to the change in the rig count.

And I think you're going to see, I know we're all in the process of gathering up the data, but just based on the experience of these gentlemen in this industry, is

that the real changes up or down to demand for forged steel fittings is very sensitive to the changes in the rig count.

MR. LEONE: John Leone. Just to add to that, the purchasing agent for an oil company, Shell, Chevron or whatever, buys for all segments of the market. So if he sees a change in price and reduces his purchases in the United States and goes foreign, he goes foreign right across the market.

The refinery and the MRO business, maintenance, repair and operations, at a refinery or petrochemical plant is fairly flat. However, that purchasing agent is buying the foreign product for every segment of the market.

MR. GALLAGHER: Thank you. This might seem a little basic, but what exactly does unfinished mean to you? Where does it stop being unfinished and it is finished?

MR. SCHAGRIN: Maybe Mr. Almer, maybe you can show the examples. It's pretty self-evident.

MR. ALMER: This is Chuck Almer. This is a forging that is considered -- I consider unfinished.

MR. GALLAGHER: Unfinished.

MR. ALMER: Unfinished. And this is a finished T, where it's drilled, threaded, chamfered and stamped.

MR. GALLAGHER: How far back from unfinished do you go before it becomes a raw material? You were talking about the pipe earlier, and you drill a hole, you thread it

and it's good to go, you don't have to forge it.

So how far from the bar to the unfinished do you start saying that this is an unfinished fitting, it's not a bar?

MR. ALMER: It's raw material, start with --

MR. GALLAGHER: How far from raw material until you start saying this is an unfinished fitting, it's not just raw material that we've been banging on for an hour? That's what I'm trying to get at.

MR. ALMER: I'm sorry, yeah, this would be considered unfinished, after the raw material.

MR. GALLAGHER: You have to bend it or something?

MR. ALMER: We have to forge it.

MR. GALLAGHER: First. As soon as it's forged, it's --

MR. ALMER: It's considered unfinished or a rough forging.

MR. GALLAGHER: You were talking about butt weld and flange, versus where in the hierarchy of value or specification do they fit?

MR. O'CONNELL: Ken O'Connell. Are you speaking in terms of overall value in the marketplace?

MR. GALLAGHER: Yeah. Or -- or uses, too. I mean, you can use it -- for instance, some might be

interchangeable and some you just can't do it, or maybe you cannot do it at all.

MR. O'CONNELL: Generally, there is no interchangeability between forged steel fittings and weld fittings or flanges, they're all unique products.

MR. GALLAGHER: So which end is the hot rod end?

MR. O'CONNELL: They're complementary. I don't have specific --

MR. GALLAGHER: I'm sorry, I didn't mean to interrupt you.

What I'm asking is, the high pressure, high corrosive, are you going to use a butt weld fitting or are you going to use a forged fitting?

MR. O'CONNELL: Typically forged.

MR. GALLAGHER: So the forged is like the more valued?

MR. O'CONNELL: Critical application, right.

MR. GALLAGHER: So you could use, and I know you're going to love this, Mr. Schagrin, you could use a forge for a lesser application, but you can't use a butt weld for a forged application?

MR. O'CONNELL: I would agree with that, that's correct.

MR. SCHAGRIN: And because of that, and because obviously customers are price-sensitive, they wouldn't want

to use a forged steel fitting if they can use a butt weld fitting. But this is pretty much the top of the line. But as Mr. Leone mentioned, just because of the nature of the production process, there's basically a size limitation to forged steel fittings.

So for larger uses, for high pressure, you've got to use a different product. But there's no interchangeability, I think that's a critical thing for the Commission, as you think about these products. There is zero interchangeability, in reality, the marketplace between forged steel fittings, flanges and butt weld fittings.

MR. GALLAGHER: Thank you. The only other question I had was when an unfinished fitting comes to the United States, is it going to look like what Mr. Almer showed me? Is that essentially what you're saying? Or is it something elsewhere on the manufacturing process?

MR. LEONE: We're not 100 percent sure, but we believe some of the forgers are supplying product with the scale. This product has been forged and it has been -- the scale has been removed, and there are some forgers that will just supply you with a real raw product right off the forge, with no -- without shot blasting. This product has been shot blasted. Either way, depending upon who the supplier is and the deal they have made.

MR. GALLAGHER: So it's once it's forged, essentially, whether they touch it more or not, it's essentially a forged --

MR. LEONE: Forged steel, right.

MR. GALLAGHER: And then that's your finished.

MR. LEONE: Right.

MR. GALLAGHER: That's all I have, thank you.

MR. ANDERSON: Thank you, Mr. Gallagher.

Now Ms. Gurevich.

MS. GUREVICH: Good morning. I have a few basic questions.

So one of the questions I have is about the workers. So you said that you see some loss in the workforce in the recent years. So one of my questions was is it primarily loss of manufacturing workers, people who are doing machining on the floor? Is it office staff? Are you -- have you been formally forced to reduce your workforce?

MR. HOUSEMAN: Yeah, as given in the testimony in the trade adjustment assistance petition, there was a percentage of the workforce, as has been indicated. There's been -- they employed nearly 300 bargaining unit members, as far as a few years ago. And currently are below 100 approximately of manufacturing workers.

MR. YOUNG: This is Doug Young. Without

looking, I'm not 100 percent sure of our current level of nonbargaining employees. From the earlier -- from the earlier testimonies, you could relate that the total employment back in 2014, I believe, was the reference to 428. So that would have been a total, not union employment, at which time there were roughly 300 USW workers. So there were about 120, 128 salaried people, SG&A and other supervising employees.

Today's level of salaried employee, non-U.S. W employee, we would have to get back to you on. I don't know that number off the top of my head.

But there have been layoffs of both USW and non-USW personnel over this time frame.

MS. GUREVICH: All right, thank you. And another question I have is about your material inputs. So you said in testimony earlier that you primarily use inputs from Canada and the U.S., and I would imagine there may be some substitutes to the inputs that you are using that may potentially reduce costs of production. Are there any substitutes that would reduce costs of production that may lead to your finished products becoming more competitive in terms of price?

And again, if it's a business proprietary information, please submit it in the briefs.

MR. ALMER: Hi, this is Chuck Almer. No,

there's no substitutes. We start with raw material.

MR. SCHAGRIN: I think just to clarify the question, Ms. Gurevich, they have only one raw material input, bar, either carbon or alloy. I think your question was could you cut your costs if you were to import unfairly traded bar from China, instead of buying from North American suppliers. And I think it's been Bonney Forge's decision over the years to work with consistent suppliers with whom they form a relationship, and then in addition, even though people may trade unfairly, will, let's say, eat the freight costs. You know, bar products as a set of steel products are pretty heavy and dense as a steel product, so they are freight-sensitive.

And so Bonney works with bar suppliers that are located nearby so that, you know, there's a freight advantage versus getting something that is very heavy and dense, like steel bar, you know, shipped from thousands of miles away.

MS. GUREVICH: All right. So last set of questions, I suppose, from me would be so I was looking at domestic production of oil and gas in the last few years. So one thing that I saw there was that there was initially an increase in production of domestic oil and gas in the early 2010 to 2015 period, and then there was a decline.

So during the increase in the domestic

production, did you also see a decline in the demand from your distributors and consumers for your product?

So what I'm trying to get at is maybe there is some correlation with the domestic production in which you see the decline for demand for your product?

MR. SCHAGRIN: This is something that's a very kind of big macro issue as they, you know, talk about pricing in the oil and gas markets is the sensitivity of the changes in the rig count to actual production of oil and gas in the United States.

So my understanding of that, working with a lot of different products in the energy industry, is wells are drilled by drilling rigs that exploration companies rent on a daily basis as they make their capital investments. But then, depending on prices of oil and gas, not all of those wells are always completed, i.e., actually pulling the hydrocarbons up out of the ground.

So it seems like a lot of analysts were surprised that in, say, 2015, the beginning of 2015, as the rig count was going down very quickly, that oil production in the United States kept going up. And that's because less wells were being drilled, but still wells were being completed.

And then eventually, you get to the point where as the rig count really plummeted by early '16, you did

have, say, a 5- or 600,000-barrel-a-day decline in U.S. oil production, and that's because eventually, the less drilling catches up with less completion.

And now, of course, the opposite is happening, that we're starting to produce more oil again and more natural gas as we're beginning to drill more.

And yes, I think if you go back before this POI, which starts at the beginning of 2014, you would see for Bonney particularly before imports were a major issue here, that Bonney Forge's business would normally improve as U.S. oil and gas production was increasing, which generally correlates to an increase in the rig count, and that their business would decline as U.S. oil and gas production was declining.

MS. GUREVICH: And my last question. Has there been any changes in the way that oil- and gas-producing companies utilize technology to actually extract and produce oil and gas that would lead to decline in demand of your product? That is, is there any technology under which they can still increase their production but without the products that you produce, without the forged steel fittings?

MR. O'CONNELL: Ken O'Connell. It would be my belief that the oil and gas industry obviously has improvements, but it does not have a direct impact to our

type products and applications.

MS. GUREVICH: Thank you.

MR. SCHAGRIN: Just to clarify, all the changes have been primarily below ground, so with the fracking, you know, having longer extensions, et cetera. But when the product comes up to the ground, to the best of my knowledge, and Mr. Leone or Ken could clarify, there haven't been changes over the years in the processing equipment aboveground where the forged steel fittings are utilized.

MR. ANDERSON: And now Ms. Taylor.

MS. TAYLOR: Thank you, Karen Taylor, Office of Industries.

First of all, I wanted to thank all the witnesses again. Your testimony has been very helpful. I have a few questions. Going back to specifications issues again.

If I understand you correctly, the specifications noted in the petition, all domestic producers produce forged steel fittings to those specifications, all foreign-made forged steel fittings imported into the United States meet those specifications.

Do I understand you correctly?

MR. SCHAGRIN: Yes, that is correct, Ms. Taylor.

MS. TAYLOR: Do you have or are there forged

steel fittings foreign-made that do not meet these specifications?

MR. SCHAGRIN: Not to our knowledge. Certainly not for the U.S. market. Possibly for foreign markets. But not for this market.

MS. TAYLOR: So I am assuming the intent of the petition is made to the specifications noted in the petition, or comparable specifications; correct?

MR. SCHAGRIN: That is correct.

MS. TAYLOR: All right, thank you.

MR. LEONE: The claims of the foreign product is that they meet the specifications.

MS. TAYLOR: All right, thank you. You mentioned that forged steel fittings have a diameter limit, at a certain point you can no longer use them, you have to use other types of fittings.

Do I understand you correctly?

MR. O'CONNELL: Typically, our fitting range is 4-inch and under. The application design would change above those sizes.

MR. LEONE: There are no emerging products that are going to replace forged steel fittings. One may consider other fittings such as malleable, but the engineers for the services that are required are insisting on forged steel fittings. The malleable products are

usually for the low pressure water systems. But for all critical piping systems in the industry, and also not to mention the utility business, the gas utilities use to a large extent forged steel fittings. They do not use any other product, because of the critical service that's serving natural gas, even though it's a lower pressure.

MS. TAYLOR: All right. I think I understand that. What about the difference between heat-treated and nonheat-treated fittings? Are there different applications for nonheat-treated fittings versus heat-treated -- specifically normalized fittings?

MR. ALMER: Hi, this is Chuck Almer. The heat treat or normalizing, normalizing is a form of heat treating, provides a little toughness for the material, refines the grain structure. And it's normally used in colder applications, Canada, so to speak.

MS. TAYLOR: All right, thank you. There were some parties saying, well, normalized fittings are completely different kind of fittings than nonnormalized fittings. And you're saying no, that's not correct?

MR. SCHAGRIN: Do you just want to describe for Ms. Taylor the normalizing process you use and where it is in the production process?

MR. ALMER: Our Canadian customers require a normalizing process to the finished fitting, whether it's a

bar or a forged item. Those products are still forged or machined complete, and then they go to a -- we have a controlled atmosphere furnace that takes the material, heats it to 1650 degrees. It sits in the furnace, depending on the wall thickness of the item, generally we process roughly 1000 pounds an hour.

And it is -- that refines the grain structure. Sits in the furnace, and then it goes to a top pool, and it's -- physically, it is the same shape and size, except the grain structure has been refined to toughen the steel a little bit that our Canadian customers require.

MR. LEONE: There are some customers that require not only normalized, they require a test, Charpy test, to demonstrate that they are -- that they are normalized. And they're concerned about low temperatures where there's -- where the temperature is low and the steel could be brittle.

By normalizing, it refines the grain size and improvements the notch toughness of it.

MS. TAYLOR: All right, thank you.

A very general question, and I just want this on the record, that's all.

The production process in the United States, used in the United States, is that generally similar to the processes used in the subject countries?

MR. ALMER: I'm assuming so. I'm not sure how those foreign countries produce the items.

MR. LEONE: We know this, though. We know from our customers that have visited plants around the world and they have come back to tell us that we have the state-of-the-art technology that is not seen anywhere else.

MR. SCHAGRIN: But I know what you're looking for, Ms. Taylor. The answer is yes, the production process -- so I mean, there's -- you have different ways of getting to different efficiencies, but there's pretty much only one die process that will forge bar into a fitting, and there are the same kinds of processes for taking either the forged bar or the bar and doing the drilling out and the threading and finishing of the product.

So we think that regardless of whether a forged steel fitting manufacturer is in China, Italy, Taiwan or the United States, that the production processes are very similar throughout the world.

MS. TAYLOR: There may be differences in efficiencies, but the basic process is the same. Is that what I'm hearing?

MR. SCHAGRIN: That's correct.

MS. TAYLOR: Those are all the questions I have, for now anyway. Thank you.

MR. SCHAGRIN: Thank you.

MR. ANDERSON: Thank you, Ms. Taylor.

And now our supervisory investigator, Mr. Corkran.

MR. CORKRAN: Thank you.

And thank you to all the members of the panel for coming today. We definitely appreciate it.

I have a few questions, and they will range across several different topics. One was, after first saying how very much I appreciate the description of the distribution network and the distinction between national, regional, independent distributors, I wonder if you could be a little more granular for me and describe, with your location on the East Coast, how do you distribute -- how do you make your product available to heavy use areas such as the Gulf region? Or how do you get fittings to the West Coast? How are you able to get your product distributed nationally?

MR. O'CONNELL: Ken O'Connell. Just basically, truckload. We ship only by truck, and it's out of our plant in Mount Union, Pennsylvania. So destination is really not an issue.

MR. CORKRAN: Can you give me an idea of what shipping costs are by truck to get product from Pennsylvania down into the Gulf region?

MR. O'CONNELL: I'm afraid that would be out of

my scope.

MR. YOUNG: This is Doug Young. From a weight -- like a cost per weight or something, no, I can't give that to you today. And I don't want to assume or guess at a number, so we can provide that to you, though, very easily.

MR. CORKRAN: I'd appreciate that, thank you very much. And I do appreciate that it's not something you might have off the top of your head either. But thank you.

Do you consider those to be major markets for your product? Do you -- do you routinely ship to the Gulf region? Do you ship to the West Coast?

MR. O'CONNELL: Ken O'Connell. Yes, sir. California is strong in oil and gas production, as is the Southwest. The Rockies, the upper Midwest and the Dakotas, and now in the Pennsylvania and Ohio oil and gas.

So it's multiple geographic locations.

MR. CORKRAN: Thank you. You sort of anticipated my interest. I am -- I am interested in the fact that there are multiple regions where there's heavy activity.

But the reason I've been focusing on the West Coast and the Gulf region is because those are areas where they can also easily accept imported -- imported product. So that's why I was kind of focusing on those two, those

two regions.

MR. SCHAGRIN: We'll give you -- Roger Schagrin. Mr. Corkran, we will give you the freight information that you requested. I would point out that compared to some other steel products the Commission deals with, given the prices per pound or the many thousands of dollars per ton that forged steel fittings, I think you will find that compared to a lot of other products that the Commission deals with, that the cost of freight compared to the value of the item is very, very low in forged steel fittings as compared to, say, hot rolled sheet or bar, rebar or anything like that. This is -- the forged steel fittings are not a very freight-sensitive product, because you're literally talking about thousands of dollars per ton of value.

MR. LEONE: In addition, when we ship, we'll ship truckloads to the areas where there's concentrated oil and gas activities. And so we'll ship in truckloads that may have several stops. So for the most part, we will sort of ship a truckload to the West Coast, we will ship a truckload to -- particularly to Canada.

But most of our product is in truckloads with multiple stops.

MR. CORKRAN: Thank you very much. This question may seem a little bit direct, but I do want to ask

it. And that is Mr. Leone, you testified that distributors are telling us, meaning Bonney Forge, that they are shifting offshore, and Mr. O'Connell you testified that you have heard repeatedly that customers are getting better prices from foreign sources.

My question is why are you bringing a case against China, Italy and Taiwan? I mean, it's a direct question, why are you looking at these three countries?

Because the testimony that I hear today focuses generally on imports, but without those three specific countries.

So that's why I'm trying to get a little more detail on why the focus on those three countries.

MR. SCHAGRIN: This is Roger Schagrin.

So while some of these distributors will name specific foreign sources, they're usually, just because the distribution process, they're just buying import versus domestic. And looking at the data, the largest sources of finished forged steel fittings in the United States are from these three countries. India is the other major supplier that you'll see in the statistics.

But to the best of our knowledge, India is primarily, unlike these other three countries, supplying rough forgings to one U.S. manufacturer that is then finishing them, and India at least at the present time is

not supplying a lot of finished forgings.

So from a competitive standpoint, these countries are the sources of most of the competition in finished forged steel fittings in the United States.

MR. CORKRAN: Thank you very much.

This question I believe would be for Mr. Almer. Can you compare for me sort of conceptually the similarities and differences between taking a bar and drilling it to form a finished product versus what a company that has a business model where they are a finisher or a converter exclusively, what they would do to a rough forging, how do those two operations -- how are those two operations similar or different in process and magnitude?

MR. ALMER: This is Chuck Almer. The work holding required to work the different items would need to be different. If you're producing a finished part from bar, you would need work holding that actually holds the bar, compared to a different work holding that would need to hold to grip this part.

The drilling, the threading, the socket welding, the stamping, could all be very similar depending on the diameter of the hole, thread you want to make.

Just machine tool work holding would probably be the biggest difference.

Did that answer your question?

MR. CORKRAN: Thanks, that's very helpful. Because I've been looking down what a series of operations that constitute finishing are, and I was trying to mentally compare that to what you do when you have a bar.

One of the things we haven't talked about --

MR. LEONE: In general the processes are going to be the same. You just identified drilling. However, there could be different machines from different companies that will drill it. But at the end of the day, it's a drill product, so the process is the same. But the machine and the holdings and other items could be different.

MR. CORKRAN: Thank you very much, that helps me. Sometime it's hard to translate the words that you see on a page into a mental image, and that's exactly what I was trying to do.

We haven't talked as much today about forming the fittings from seamless pipe. Can -- is that a process that Bonney Forge uses at all?

MR. ALMER: We do use some seamless pipe for our 3- and 4-inch couplings and half couplings only. It's a very small volume, portion of our requirement.

MR. CORKRAN: And for that, and since you're using it for couplings, is that largely a cutting and finishing operation that you're talking about for that type of product?

MR. ALMER: Correct.

MR. CORKRAN: We talked a little bit earlier about size range limitations. Can you give me an idea what that limit would be? Are we talking 4 inches, 5 inches, 6 inches? At least for Bonney Forge, what would be your size limitation?

MR. ALMER: Hi, this is Chuck Almer again. Yeah, our largest we stock is 4-inch diameter. I was going to bring one, but a 4-inch forging weighs roughly 80 pounds, and I might have had a problem getting through security.

MR. CORKRAN: One of the reasons I ask this is because with some of the people that we've communicated over the past three weeks, there have been references to fittings that are a larger -- that are larger size.

At least from your domestic competitors, are you aware of other companies that offer larger-size fittings? If so, to your knowledge, do they tend to be used for similar or dissimilar applications?

MR. LEONE: In a given piping system, you'll find that we can go up to 4-inch. But once you get over 4-inch, the economics are not such to continue to use forged steel fittings. You would have to go to an open die. Over 4-inch, that's usually a welded -- welded pipe with weld fittings.

However, to answer your question about, yes, are there fittings over 4-inch? Yes. And we make them. We make them in Houston, they are made to order, they are for subsea for the most part. Very critical services. But we do make fittings that are larger, but they're all made to order from our location in Houston.

MR. CORKRAN: That's interesting. Can you tell me a little bit more about that? I wasn't really even all that focused on your Houston location. How -- for these critical application products, what is the flow of raw material down to Houston and what would you be doing down in that location?

MR. LEONE: In Houston, because of the size, we use an open die rather than a closed die. That's a different forge and it has different power. Because it's dealing with different weights. And virtually, every product that we make out of Houston is a made to order for specific requirements that we assist in the design. But these are larger than, you know, this table in some cases.

Because for the most part, they are used in -- a lot of it is used subsea manifolds for FMC, is a good customer of ours.

But they're really made with a different process than our forged steel fittings here in Pennsylvania.

MR. CORKRAN: I'm sorry, so these would not be

forged?

MR. LEONE: No, they would be forged, in a different forging process. It would be an open die forging, where they forge the material. They move the material, but then they machine it. These are open die forgings. And that's typical of the industry. Anyone that needs a big forging that -- for special application or for somebody that wants a forged steel fitting, for instance, and wants a 6-inch. We could make it, but there's no demand for it, because welding fittings are the most economical way to go.

MR. CORKRAN: Thank you. That's very helpful, and that's -- I would say that's roughly consistent, I think, with some of what we've been hearing as well when people have talked about larger-size -- larger-size fittings.

Can we speak a little bit more about AMLs? What would be the most common AMLs that cover the forged steel fittings in this case?

MR. O'CONNELL: Ken O'Connell. The most common AMLs typically are the larger oil and gas companies. Marathon, Chevron, Shell, Exxon.

MR. CORKRAN: To your knowledge, do distributors tend to essentially use those ultimate end user AMLs, or do they generate their own AMLs?

MR. O'CONNELL: Actually, both end users create their own, often with the help of distributors. But distributors also have a little bit of a variation. They oftentimes call it an ASL, which is an approved supplier list.

MR. SCHAGRIN: Mr. Corkran, it's important to point out that because all of these sales go through distribution, it's the distributors who deal with the customers' AMLs.

So Bonney Forge, just like a farm producer, like a Omega or Both-Well, they all work with distributors to get onto AMLs, and it's the distributors who have to work with the end users on supplying them anything that is on an AML.

Of course, the distributor then has an incentive to have more suppliers to work with end users to say, hey, you ought to add this new foreign source we found that we think has, you know, great quality, add them to your AML.

But those -- at least in this industry, it's the distributors who deal with the customers' AMLs, not the manufacturers who deal with the customers' AMLs.

MR. CORKRAN: If you can provide some examples in your postconference brief of the principal AMLs, if you have those available to you, that would be -- that would be very helpful. We only need it with respect to the portion

of that AML that would be dealing with these steel -- these particular fittings. I understand that the actual documents tend to be a lot longer.

MR. SCHAGRIN: We can do that in postconference brief. And it's worth also saying, as we said in other proceedings before the Commission, that over the past several decades, the role of AMLs has diminished significantly for several reasons. First is the change in the landscape of the drilling in the United States, that more and more the drilling is being done by mid-sized and smaller drilling companies, exploration companies, rather than the large companies.

And then in addition, the word of mouth on the street is that as everybody gets more cost-sensitive, particularly during downturns, there seems to be increasing willingness of companies that previously said I'm only taking products on my AML, to where a distributor says this product may not be in your AML, but it meets spec and it's a lot cheaper.

So just overall, over the past few decades, the actual role of AMLs in sales of products into the energy sector has diminished tremendously.

MR. CORKRAN: Pursuing the issue of AMLs just a little bit further, based on your knowledge of the common AMLs that address this product, can you tell me, are

companies -- well, for example, in your petition, you indicated that the company Anville was believed to be a producer but not believed to be an integrated producer, such as Bonney Forge.

Would a company such as that be on an AML, for -- Anville in particular, is Anville on AMLs?

MR. O'CONNELL: Yes.

MR. CORKRAN: So it's possible that converters or processors or whatever we may want to call them in this particular industry would be identified as the manufacturer for purposes of the AML?

MR. O'CONNELL: Yes.

MR. CORKRAN: Okay. Thank you. That's very helpful.

Either now or in a follow-up, I would appreciate if it was before your postconference brief, but could you either tell us now or communicate to Staff, when you talk about round bar being primary raw material, can you give us a little more detail on either the grade or the particular chemistry? And I'll tell you exactly why I'm asking. Where possible, we would like to find published price series for the inputs. And I'm just trying to get a little more detail on the type of round bar we're talking about.

MR. ALMER: We have our own chemistry that we specified. Kind of equivalent to a 1022 modified. Special

bar quality, SBQ bar. But we have our own little -- we call it a little soup mix of making sure it meets all our customers' requirements. This is Chuck Almer by the way, sorry.

MR. CORKRAN: We'd be looking for a price series on SBQ bar, then, it sounds like. That would give us a general, a general trend line for your primary raw material?

MR. ALMER: Yes.

MR. CORKRAN: Thank you very much.

I guess the last question I have is at least for Bonney Forge, can you tell me, is there -- do you -- have you experienced a big difference in your ability to utilize your forging capacity in recent years versus the part of your equipment that's dedicated to finishing operations?

MR. ALMER: This is Chuck Almer. The relationship in the downturn has been pretty equal between the forging and the finishing bar product range.

MR. CORKRAN: Okay. And I guess maybe another way of asking the same thing is do you have -- do you have substantially greater finishing capacity, for example, than forging capacity, or are they pretty well matched?

MR. ALMER: They're pretty well matched.

MR. CORKRAN: Thank you.

I appreciate very much the time you've spent

answering my questions. They have been very helpful. With that, I have no further questions.

MR. ANDERSON: Thank you.

All right. I'll scan the team and see if they have any follow-up questions.

Ms. Shister?

MS. SHISTER: Thank you.

I have just a few sort of follow-up questions. When product goes to the distributors, from there, does it get mixed in with imports, with other domestic producers, or does it stay -- this fitting from Bonney is going to go to this specific end user?

MR. O'CONNELL: My experience would be if a distributor carries both, they're segregated, they're not intermingled.

MS. SHISTER: Thank you. And looking at in particular unfinished forged fittings, it's my understanding that you all do not sell these unfinished blanks; is that correct?

MR. LEONE: No, we do not sell rough forgings, we do sell finished to some of our competitors, but we don't sell any rough forgings.

MS. SHISTER: Thank you. And perhaps this is something that needs to be addressed in the postconference brief. If you could just go into a little bit of detail on

the specific value add between the forging and the finishing itself.

MR. SCHAGRIN: We'll address that in the postconference brief.

MS. SHISTER: Thank you.

And then this is probably addressed to Mr. Schagrin. The scope includes these unfinished forgings, and especially if the petitioner is not selling these, I'm just wondering if we could clarify why we would include those in scope and in the like product.

MR. SCHAGRIN: Okay. Two things. First, Bonney Forge has sold rough forgings in the past to U.S. producers. They just haven't sold them during their period of investigation.

And second, in terms of like product and in terms of the value of relief from unfairly traded products in domestic industry, as I think you can see from the examples that we brought today, rough forgings and finished forgings represent a continuum of product. Finished forgings come from rough forgings, and so to only cover finished forgings in the case would just encourage the foreign producers to either supply rough forgings to producers in the United States who would finish them and would have the advantage of being able to buy unfairly traded rough forgings, or to move their finishing

operations to the U.S. and supply unfairly traded rough forgings and then finish them in the United States.

So because these two represent a continuum of products, we think like many other products, that the ITC has reviewed, such as, you know, green tube and finished OCTG, or that's one example that comes to mind, that it's critical for the Commission to view rough forgings and finished forgings as part of one domestic like product.

Clearly, they're all covered by the scope, but we think besides the fact that they're both in the scope is that they do represent one domestic like product.

MS. SHISTER: Thank you. And I would just ask that you sort of address that in the postconference brief, especially because of the emphasis on China, Italy and Taiwan being major sources for finished forgings and not necessarily for unfinished.

And that's all I have.

MR. SCHAGRIN: We will do so.

MS. SHISTER: Thank you.

MR. ANDERSON: Any other questions from the team?

Okay.

MR. GALLAGHER: Sorry, I don't mean to prolong this. Threaded and socket weld, what percentage, roughly, if you can, or postconference brief of, the business of

your sales is threaded versus socket weld?

MR. ALMER: It's roughly 3-to-1, 3- or 4-to-1 threaded to socket weld. Rough estimate.

MR. GALLAGHER: That's my last question. Thank you.

MR. ANDERSON: Thank you.

I just have to invite you to address one other question. It relates to the channels of distribution, you were talking about the different channels.

And Mr. O'Connell, perhaps this is for you. What -- what levels of channels, you know, large distributors, regional, are you seeing the most impact from the subject imports that you're here about today?

And then have you seen any activity where your customers are directly importing those subject imports as opposed to going through the traditional or historical channels?

MR. O'CONNELL: Yes. Ken O'Connell. I think it's a uniform change. It's a function of size. With our larger distributors, they are buying direct.

Conversely, on the other end of the spectrum, the smaller distributors often buy import through master distribution.

So it's across the board.

MR. ANDERSON: That's very helpful, thank you.

And of the subject imports, are you seeing any particular country source penetrating or more active in any of those channels, you know, China, Italy, Taiwan, any particular channel that they are more active in than the others?

MR. O'CONNELL: Again, across the board.

MR. ANDERSON: Okay. That's very helpful.

All right, thank you.

And on behalf of the team, I want to thank you very much for helping us gain a better understanding and answering our questions, very helpful for the record and for our work that we have to do here.

So with that, we'll move into closing arguments.

Mr. Schagrin, I'm going to channel the inner Secretary role here by announcing that closing arguments in favor of an order in place will be given by Mr. Schagrin of Schagrin Associates.

CLOSING REMARKS OF ROGER B. SCHAGRIN

MR. SCHAGRIN: Well, thank you, Mr. Anderson.

So I think it's got to be a good 20 years since the last time I showed up at a conference. I have had a couple of sunset reviews at which we've actually had a hearing, but there's been no Respondents.

But I think given the fact that there's no Respondents here today, that there's nothing to rebut. However, you know, we're very well aware of the

Commission's statutory requirements, and we pledge to work with the Commission Staff to help you assemble as complete a record as possible. The fact that Respondents aren't at the hearing doesn't change your responsibility to present to the Commission all the facts possible about the domestic industry, about the like product issues, about the imports and the underselling.

And so we look forward to receiving that data from you, in terms of the questionnaire responses, aggregating it and addressing issues that we otherwise might talk about in a closing argument in our postconference brief.

With that, I think that's my shortest closing, in place of just saying we don't have a closing argument, that was just my very short closing.

We would like to thank all of the Commission Staff for your efforts and look forward to assisting you in your investigation.

And I think given the uniqueness of this product, this is the first time you've had this product, if at this time or prior to the final investigation -- Mount Union is about a three- to 3-1/2-hour drive away. It is a pretty unique process. Not unique compared to any of their competitors, but unique compared to other products.

And so we'd encourage you, this is probably one

of those products where a plant visit would probably be advantageous to Staff and commissioners prior to the final.

And we thank you very much.

MR. ANDERSON: Okay. Thank you, Mr. Schagrin.

With that, again, on behalf of the team, I want to thank you for being here today and for your testimony and answering our questions. I want to conclude by mentioning a few key dates to keep in mind in this preliminary investigation.

The deadline for submission of corrections to the transcript and for submission of postconference briefs is Tuesday, October 31. If briefs contain business proprietary information, a public version is due on Wednesday, November 1.

And the Commission has tentatively scheduled its vote on these investigations for Friday, November 17. We will report our determinations to the Secretary of the Department of Commerce on Monday, November 20, and Commissioners' opinions will be issued on Tuesday, November 28.

With that, I thank you for being here today, and this conference is adjourned.

(Whereupon, at 11:25 a.m., the conference was adjourned.)

CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Forged Steel Fittings from China, Italy, and Taiwan

INVESTIGATION NOS: 701-TA-589 and 731-TA-1394-1396 (Preliminary)
HEARING DATE: 10-26-17
LOCATION: Washington, DC
NATURE OF HEARING: Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.
DATE: 10-26-2017

SIGNED: Mark A. Jagan
Signature of the Contractor or the Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings 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 proceedings.
SIGNED: Christopher Weiskircher
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I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.
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