

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:
STAINLESS STEEL FLANGES FROM CHINA
AND INDIA

) Investigation Nos.:
) 701-TA-585-586 AND 731-TA-1383-1384
) (PRELIMINARY)

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UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:) Investigation Nos.:
STAINLESS STEEL FLANGES FROM) 701-TA-585-586 AND
CHINA AND INDIA) 731-TA-1383-1384
) (PRELIMINARY)

Hearing Room A
U.S. International Trade
Commission
500 E Street, SW
Washington, DC
Wednesday, September 6, 2017

The meeting commenced pursuant to notice at 9:30
a.m., before the Investigative Staff of the United States
International Trade Commission, Michael Anderson, Director
of Investigations, presiding.

1 APPEARANCES:

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1 Opening Remarks:

2 Petitioner (Daniel B. Pickard, Wiley Rein LLP)

3

4 In Support to the Imposition of Antidumping and

5 Countervailing Duty Orders:

6 Wiley Rein LLP

7 Washington, DC

8 on behalf of

9 Coalition of American Flange Producers

10 Alex Maass, President, Maass Flange Corporation

11 David Cook, Vice President, Maass Flange

12 Corporation

13 Dr. Seth T. Kaplan, Economist, International

14 Economic Research LLC

15 Daniel B. Pickard and Stephanie M. Bell - Of

16 Counsel

17

18

19 Closing Remarks

20 Petitioner (Daniel B. Pickard, Wiley Rein LLP)

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1 P R O C E E D I N G S

2 9:32 a.m.

3 MR. BISHOP: Will the room please come to order?

4 MR. ANDERSON: Good morning and welcome to the
5 U.S. International Trade Commission's Conference in
6 connection with the preliminary phase Antidumping and
7 Countervailing Duty Investigation Nos. 701-TA-585-586 and
8 731-TA-1383 through 1384 concerning Stainless Steel Flanges
9 from China and India. My name is Michael Anderson.

10 I'm the Director of the Office of Investigations
11 and I'll preside at this conference. Among those present
12 from the Commission Staff are on my far right: Douglas
13 Corkran, our Supervisory Investigator and we have two
14 investigators which may make you feel this case is very,
15 very important; we have Justin Enck and Amanda Lawrence. On
16 my left: our team is Courtney McNamara our Attorney
17 Advisor; Tana Von Kessler our Economist, David Boyland Our
18 accountant and Advisor and finally David Guberman our
19 Industry Analyst.

20 I understand that all parties are aware of the
21 time allocations and I would remind speakers not to refer to
22 Business Proprietary Information and to speak directly into
23 the microphones. We also ask that each time that you speak,
24 please state your name and affiliation for the benefit of
25 the court reporter. All witnesses must be sworn in before

1 presenting testimony. Any questions regarding time
2 allocations should be addressed with the Secretary. Are
3 there any questions?

4 Very well. Mr. Secretary, let us proceed with
5 opening remarks.

6 MR. BISHOP: Mr. Chairman, before we proceed to
7 opening remarks I would note that all witnesses for today's
8 conference have been sworn in. Opening remarks on behalf of
9 the Petitioner will be given by Daniel B. Pickard, Wiley
10 Rein

11 STATEMENT OF DANIEL PICKARD

12 MR. PICKARD: Good morning. For the record, this
13 is Dan Pickard of Wiley Rein. Thank you Mr. Anderson and
14 Staff. As I indicated I think I will make a very
15 abbreviated opening statement and then perhaps we will get
16 right into the direct presentation.

17 So I think what I'd like to tee up is maybe six
18 major points and I don't think any of these are going to be
19 surprising but I just wanted to kind of front load it.

20 Point number one is stainless steel flanges are
21 fungible products and are made regardless if they are
22 domestic, Chinese or Indian to the same specifications.

23 Number two that is one of the most relevant
24 conditions of competition. Demand has decreased during the
25 POI and remains relatively flat to down over the interim

1 periods. In 2017 the most recent evidence
2 of record shows a significant increase in Subject Imports
3 whether measured absolutely relative to U.S. Production or
4 by market share.

5 Number four, there is compelling evidence of
6 underselling both by examining the underselling data in the
7 questionnaires and also examination of the average unit
8 values and the official import statistics.

9 Number five, this is a compelling case of current
10 material injury. Maybe most probative in regard to evidence
11 of injury would be the effects of imports on the industry's
12 operating margins and operating profits.

13 And then, while I think of this case as
14 predominantly a current material injury case there is also
15 compelling evidence of further threat of injury, especially
16 evidenced by the massive excess capacity in the Subject
17 Countries. Their history of surging into and out of the
18 market and perhaps to a greater degree than the Commission
19 has seen in other cases recently just a completely
20 different level of subsidization provided by both
21 Governments of China and the Governments of India -- all of
22 which we will discuss further today.

23 So how we've structured our direct presentation
24 is Mr. Maass is going to have a direct statement and then
25 review of the production process. I am going to highlight

1 some of the specific legal issues and then Dr. Seth Kaplan
2 is going to go over some of the economic issues and a review
3 of some of the most pertinent conditions of competition.
4 Obviously we would be happy to answer any questions that you
5 might have. So Alex, if you would be so kind?

6 STATEMENT OF ALEX MAASS

7 MR. MAASS: Good morning. This is Alex Maass.

8 (Some sound problems.)

9 Good morning and thank you for your time to work
10 on this case. I am Alexander Maass, President of Maass
11 Flange Corporation located in Houston, Texas and Sealy,
12 Texas. Maass Flange was founded almost 70 years ago in 1948
13 by my Grandfather.

14 Our family formed Maass Flange in the United
15 States 35 years ago in 1982. I started working in the
16 company in 1986 as a high school student on a part-time
17 basis. In the 1990's I became Vice President of Maass
18 Flange and in 2002 I became President of the Company and I
19 have held this position for the last 15 years.

20 I have over 30 years of experience in the
21 business and represent a third generation of family to work
22 at the company. Within the context of the scope of this
23 case, Maass Flange is the largest fully integrated stainless
24 steel flange manufacturer. We offer a complete line of
25 flanges and a full range of pressure classes and in various

1 grades of material.

2 Our stainless steel flanges are used to
3 strengthen and connect pipes, valves, pumps and other
4 equipment for piping systems and because they are resistant
5 to the harshest applications. They are used in gas and
6 petrochemical applications as well as coal, natural gas,
7 wind, and nuclear energy power applications.

8 Our flanges are also used to assemble
9 pharmaceutical equipment and our nation's military vessels
10 and warfare products including navy ship, submarines and
11 aviation jet refueling systems.

12 I am here today because our company and employees
13 are being injured by imports of stainless steel flanges from
14 China and India. In 1994, this Commission and Department of
15 Commerce issued a much needed trade relief through
16 antidumping orders against India and Taiwan.

17 The market recovered at that time. By 2005, one
18 of the biggest competitors, Virage had been removed from the
19 Indian order after three years of receiving zero or de
20 minimis margins. We hope that this meant that Virage or any
21 of its affiliates or related companies were done with
22 dumping their products into the United States.

23 Sadly, we were wrong. We are now back at the
24 same crossroads we were in at the mid 1990's. With even
25 worse conditions now, and we believe that the behavior of

1 Virage and its sister company Bibbits has only worsened.
2 The Commission's recent experience with Virage in a 337
3 Investigation speaks volumes as to their dishonest business
4 practices.

5 Now, with the Domestic Industry even more
6 vulnerable due to declining demand, the behavior of Virage
7 and other Subject Exporters is especially harmful. Today,
8 because of Indian companies like Virage and Bibbits as well
9 as Chinese flange producers and exporters, conditions of our
10 industry have worsened, particularly over the last three
11 years.

12 Imports have seriously damaged producers in the
13 United States as American Manufacturers have increasingly
14 been forced out of the business by low-priced imports. For
15 example, the Ameriforge Group which was a true U.S.
16 Manufacturer of stainless steel and alloy flanges, filed for
17 Chapter 11 bankruptcy protection earlier this year.

18 As a result of dumped and subsidized low-priced
19 flange imports, Ameriforge now imports significant amounts
20 of semi-finished flanges and performs only minimal machining
21 on these imports as a converter. Ameriforge and other
22 companies like it are sacrificing their forging operations
23 all because of Chinese and Indian imports.

24 Further, U.S. Companies involved in finishing
25 operations are heavily supplied by Virage and other Indian

1 and Chinese manufacturers who sell the low-priced forgings
2 that need only undergo minor finishing before they are sold
3 side-by-side and head-to-head with U.S. Product.

4 To illustrate how imports have injured our
5 industry through unfair pricing, we brought a billet, a
6 forging and a finished flange. As I explained earlier, a
7 billet goes into making a forging which then goes into
8 making a finished flange. It is not uncommon to see imports
9 of finished flanges from India where the per kilo price is
10 even less than the value of the billet we use to produce the
11 U.S. flanges.

12 The price of Indian flanges which includes
13 freight, packing and other costs is frequently cheaper on a
14 per kilo basis than the cost of our basic raw material. As
15 the components used to make the stainless steel are global
16 commodities, the pricing on Chinese and Indian flanges is
17 clearly illogical and expenses and machining costs have not
18 even been factored into the raw material.

19 Further, once you compare the Indian price to the
20 price of a finished U.S. flange, the Indian price can be 70
21 percent lower than the Domestic price. To be clear, these
22 are for the same interchangeable products made to the exact
23 same customer and industry specifications.

24 This astronomical price difference is not
25 accidental. It is a result of sales at a less than fair

1 value and countervailable government subsidies. As
2 low-price Chinese and Indian flanges are sold to U.S.
3 Customers, we lose sales and revenue to companies whose
4 exports to the United States are heavily subsidized by the
5 Chinese and Indian Governments and who otherwise engage in
6 unfair practices.

7 In fact, Virage has publicly admitted that it has
8 received over 300 million Euros in subsidies from the
9 Government of India. Importantly U.S., Chinese and Indian
10 flanges all compete throughout the U.S. Marketplace.
11 Although they are approval-listed in the Industry this has
12 no effect on imports' ability to compete with U.S.
13 Merchandise for three main reasons.

14 First, the vast majority of sales, at least 75
15 percent are not done through approval lists. Second, many
16 Subject Importers and Converters that use Indian and Chinese
17 forgings and unfinished flanges are on the approval list and
18 therefore compete with U.S. Made flanges for approval list
19 sales. Third, if the prices being offered are low enough,
20 even on the unapproved, customers that use the approval list
21 will make exceptions and accept unapproved flanges as a
22 substitute.

23 Thus, throughout the entire U.S. Marketplace, the
24 Domestic Industry is faced with competition of large
25 quantities of low-priced imports from China and India.

1 Unless antidumping and countervailing duty orders are issued
2 against these imports, low-priced flanges from China and
3 India will continue to enter the United States market,
4 displace U.S. Production, depress Domestic prices, cause
5 financial distress and further injure our business.

6 At Maass Flange, the production of stainless
7 steel flanges used to represent 95 percent of our turnover.
8 Now, the products covered by the scope of this investigation
9 are less than 50 percent of our production and this number
10 will continue to decrease unless Chinese and Indian Imports
11 are stemmed. Moreover, our business as a
12 whole has shrunken dramatically as a result of low-priced
13 flange imports and both the company and we have been unable
14 to match 401K contributions as we would like and have been
15 forced to limit pay raises and year-end bonuses. Without
16 the financial ability to raise wages we have lost a lot of
17 talented employees, many of which were with the company for
18 a considerable amount of time.

19 There is no question that the unfair imports have
20 injured our workers. Were the Commission to decide not to
21 further investigate this case, the results would be
22 devastating not only for the company and workers but for the
23 Industry as a whole. Simply put, the United States would
24 completely lose the competence to forge these products in
25 the United States. As I mentioned earlier, we are one of

1 the last of the integrated producers.

2 Without an order, our company will likely go out
3 of business or be forced to close our forging facility. We
4 would no longer manufacture anything. We will just be a
5 small office in Texas with a staff of about five people.
6 The towns where we operate in, the economies, the
7 communities would also suffer greatly.

8 As I mentioned earlier we have a facility in
9 Sealy, Texas which is a town of about 7,000 people. We are
10 the largest gas consumer in the town of Sealy and one of the
11 largest industrial employers in town. We employ about 40 to
12 50 people in this town. However if Chinese and Indian
13 Imports of stainless steel flanges were allowed to continue
14 devastating our business we would have no option but to shut
15 down the Sealy facility.

16 This would be a big hit to a small town producing
17 a devastating domino effect to the local economy and
18 community. We should not be forced to compete against
19 unfairly traded imports from China or India, which are
20 selling flanges at or below raw material costs and are
21 heavily subsidized by their governments. These imports have
22 caused us to make painful employee decisions and if these
23 imports are allowed to continue harming our company we will
24 have to make even more painful decisions that will affect
25 our employees and families.

1 This is why we are here today, fighting for our
2 industry. Imports of Stainless Steel Flanges from China and
3 India have caused significant injury to our U.S. Industry
4 and its workers and threatened us with continued injury. We
5 urge the Commission Staff to recommend the continuation of
6 these investigations. Thank you very much for your time and
7 I am happy to answer any questions.

8 Thank you. I will proceed with the general
9 production flow of how a flange is made to try to give you
10 an understanding of how it goes from raw material to
11 finished state and after that presentation try to give you a
12 little bit of explanation on how all of these products are
13 interchangeable. In fact, while I was putting them on the
14 table, I myself had to very closely look to make sure that I
15 put each flange on the right piece of paper because
16 otherwise I could not tell.

17 MR. MAASS: As I had mentioned earlier, we are a
18 fully integrated domestic manufacturer of stainless steel
19 flanges. What does "fully integrated" mean?

20 Fully integrated means we purchase the raw
21 material, which is that little block sitting right over
22 there (indicating), of billet from qualified steel mills.
23 We heat that piece of billet up to a temperature red hot,
24 and then forge it into a forging shape, fully machine
25 inspect, and ship it.

1 The materials received in either round or
2 round-corner square--round-corner square is the piece that I
3 brought with me--shape. It's being saw-cut on band saws to
4 the length required to fulfill the amount of volume of
5 material required to forge the flange. That's pretty much
6 the first production process.

7 After saw cutting, it's heated in furnaces to a
8 temperature between 22- and 2300 degrees Fahrenheit. It's
9 being forged into a shape that represents the forging
10 itself. It's being heated so the material is pliable, and
11 the shape of the forging, just like the forging that I
12 brought with me there, already represents the same shape as
13 its final product. You've got about one-eighth of a
14 millimeter--I mean one-eighth of an inch overage for
15 machining allowances. Other than that, it's the same shape.

16 After the forging process, there is a heat
17 treatment process that is part of the production process for
18 the in-scope products. Typically it would be a solution
19 annealing process, which means that the forging is being
20 solution-annealed or water quenched.

21 There it rapidly cools off and turns into this
22 gray looking forging thing on the table. After the heat
23 treatment process, the forging gets moved over to the
24 machining and drilling facility where the excess material
25 gets removed, and it gets machined to the dimensional

1 specifications as per ASME 16.5 specifications, including
2 the bolt holes, ID holes if necessary, some of the blind
3 flanges that don't have ID hole, but the bolt holes and
4 everything else, giving it the quote/unquote "shiny" finish
5 that you see on the table.

6 There is no additional coating necessary on these
7 in-scope products different than some of the carbon steel
8 products where you have a painting process. On stainless
9 steel you typically don't have that, not at our level.

10 After machining and drilling, you go to the
11 marking process. As you can see, each one of these finished
12 flanges that I brought with me all have external impression
13 marking on it. And the marking will specify the
14 manufacturer emblem, the nominal pipe size for the flange,
15 the pressure class, as well as material grade specification
16 and the very last is usually the heat number from the
17 original material from the mill.

18 After all this, we go to a final inspection
19 process where the inspector will again reconfirm that all
20 the criteria has been met, the dimensional criteria, the
21 material specifications, and that there are no faults,
22 visual faults, on it.

23 Then we proceed to a packing stage. Typically
24 the material gets packed onto regular freight pallets, or
25 wooden crates. And after the packing stage, we go to the

1 shipping stage where the customer either comes to pick it
2 up, or sends a freight line to come by to pick it up, and in
3 some instances in the local say Texas region we use our own
4 trucking abilities to deliver either directly to our
5 customer or directly to the end user by means of drop
6 shipping to the projects.

7 That concludes my production presentation. And
8 then I'll come over here--(off microphone)

9 Alright, the purpose of bringing these flanges--
10 and please feel free to look at them and give me any
11 questions. I just wanted to pick them up and kind of
12 explain to you. This is the billet that is cut as
13 prematerial. This is what we're saying our cost of this
14 piece (indicating), just the raw material cost is more than
15 some of the Indian imported flanges such as this
16 (indicating). If you take the weight of this piece and do
17 the math, the per weight, per kilo cost of this finished
18 flange coming into the U.S., including freight, packaging,
19 and everything, is less than the starting material cost of
20 us to make a flange domestically.

21 The semi-finished that also comes in, comes to
22 the converters, is something like this (indicating). It is
23 a forging that comes from the forging facility. They
24 machine it already in the low-cost country typically, and
25 take--so that you can see the shape is already the same

1 shape. This is one of our domestically made flanges in
2 Houston. They will just take that semi-finished, add the
3 bolt holes. Typically it already has a ID hole machined in
4 it overseas. This one did not because my machine shop
5 didn't know to put a hole in it, but typically all machining
6 is done except the bolt holes. And then they sell it,
7 competing with my domestically produced flange in the U.S.
8 marketplace.

9 The flanges are interchangeable, meaning I can't
10 even--without looking at the markings exactly, I can't even
11 really tell them apart, right? Just setting it up here, we
12 had to look very close, what is which, and which goes on
13 what piece of paper.

14 The purpose of these is to join pipes together.
15 You have pipes that weld onto these ends, and you have bolts
16 that bolt the flanges together to do interconnection. You
17 can also have what is called a blind flange, which is like a
18 cap end. This is from Bebeets, for example, and this is from
19 Boss, made in Houston, and they would also butt up together
20 because of the ASME standard. Everything is made to the
21 same dimensional standard. And they can be used
22 interchangeably because of that.

23 So if you would like to look at these, they are
24 very interchangeable. It is a commodity item. Very
25 difficult for somebody even like us in the industry to tell

1 apart. That's the reason I brought these, and please let me
2 know if you have any questions.

3 MR. PICKARD: Great. This is Dan Pickard. What I
4 would like to do is just go through some of the legal
5 issues. And I think we can tick through some of these
6 pretty quickly.

7 (Slides are hereafter shown.)

8 So on our first slide--why don't I do it, or not--
9 --there we go. So I would just point out that there's a long
10 history as far as stainless steel flanges, especially as to
11 India. There was a case brought in 1994, two sunset
12 reviews. So the Commission has looked at this product and
13 this industry both domestically and India before, which can
14 always be helpful on any original investigation.

15 So first and foremost, as far as suggested
16 domestic like-product definition, we're suggesting domestic
17 like-product definition co-extensive with the scope. This
18 is similar to the previous cases.

19 And I note that it doesn't appear that this is
20 contested by any party for the purpose of this
21 investigation. But obviously to the extent that there would
22 be questions about a possible alternative domestic
23 like-product definition, we'd be happy to brief it in the
24 postconference, provide you the six factor.

25 I think kind of one of the underlying issues that

1 I would point out is our scope definition essentially tracks
2 the ASME spec. So that's what gives you kind of your bright
3 lines for sizes and qualities.

4 I would note--and this is more of a scope issue,
5 but this is going to come up later in regard to kind of
6 determining who is in the domestic industry. As you will
7 see--and I'll talk about it a little further in our scope
8 definition--finishing operations don't change
9 country-of-origin.

10 So for purposes of what's in-scope, obviously
11 determinations by your sister company, but Chinese and
12 Indian unfinished products that are going to be finished
13 here will still remain subject merchandise.

14 In regard to one of the questions that's going to
15 pop up I would imagine is your traditional semi-finished
16 product analysis. We're suggesting one domestic
17 like-product definition. That includes the forgings, the
18 unfinished products. This is consistent with the 1994-95,
19 2005 case, and I would point out that the forgings are
20 entirely dedicated to the production of the downstream
21 product. But again, to the extent that it would be helpful
22 for us to fully brief this in the postconference, we're
23 happy to do so.

24 This is the issue that I tee'd up earlier as far
25 as trying to determine who is going to be in the domestic

1 industry. We are going to recommend that the ITC's injury
2 analysis focuses primarily or exclusively on integrated
3 producers. And that's in large part because of how the
4 scope is defined. And we're beginning to see more and more
5 of this in regard to scopes at the Department of Commerce
6 where the scope specifically provides in this case that the
7 country-of-origin for the products are where the item is
8 forged.

9 So a Chinese-forged product, or an Indian-forged
10 product, even if it gets further machining in the United
11 States, is going to be in-scope.

12 And Alex pointed something out, and I think this
13 may be an issue more for the final phase investigation, and
14 certainly it's not crucial to run it to ground for purposes
15 of the prelim, but you might have seen in the trade press
16 that our Petition was a little unusual in that it also
17 included, under the regulations of the Department of
18 Commerce, you have to list where imports are coming from.
19 And also to the extent that you think they're being
20 transshipped through another country. So traditionally--and
21 I know this isn't an ITC issue, but it may pop up in the
22 final--there are anti-circumvention concerns that are things
23 we deal with at Commerce and with Customs. Here, there's
24 reason to believe that at least part of the Philippine data
25 are actually Chinese-forged product that are getting

1 relatively minor machining. And we called this out in our
2 Petition.

3 Again, I don't think it's going to be
4 outcome-determinative for purposes of this prelim because,
5 as I talk about in my opening statement, with the Philippine
6 numbers in or the Philippine numbers out, and frankly we
7 don't know to what extent all of the Philippine, or what
8 percentage of the Philippine product is transshipped Chinese
9 product, but it may be an issue for the final.

10 There will almost definitely be a related-parties
11 issue. Again, I don't think that this is necessarily going
12 to be a run-to-ground in--for purposes of the prelim, but to
13 the extent that converters would be deemed to be domestic
14 producers, a lot of them are going to be, or a significant
15 amount of them are going to be almost entirely dependent on
16 Chinese who are Indian product.

17 Some of them have relationships that will
18 probably be BPI in nature, with Chinese and Indian
19 producers, and this may not be limited to just finishers.
20 There's evidence that at least one integrated producer may
21 be subject to exclusion under the related-party provision.

22 And I would also note that this is something that
23 the Commission found was appropriate in 2005, and I believe
24 the previous investigations, that application of the
25 related-party provision was appropriate.

1 Cumulation I think is going to be very
2 straightforward for this case. There is well-documented
3 evidence, and I think the questionnaires are also very
4 supportive, including the importer questionnaires in regard
5 to interchangeability. There's strong evidence regarding
6 common or similar channels of distribution. And the
7 Petition lays out I think in a pretty thorough manner the
8 extent of geographic overlap and the fact that they're
9 simultaneously present.

10 Dr. Kaplan is going to talk in more depth
11 regarding some of the key conditions of competition, but
12 similar to really kind of tracking exactly what I said in my
13 opening statement, some of the most relevant conditions of
14 competition are going to be the fungibility of these
15 products; the fact that there was a period of decreased
16 demand over the three-year period, and kind of a flattening
17 of demand from the first half of 2016, first half of 2017.
18 It's going to be relevant and consistent with previous
19 Commission determination that most sales are to distributors
20 that tend to stock commodity-type products.

21 As I also indicated, subsidies are probably going
22 to have perhaps a larger role in this case than you see in
23 other ITC determinations. Obviously it's a Department of
24 Commerce issue, but it's also relevant for threat. And the
25 levels of subsidization here--and there's public information

1 in regard to the levels of subsidization are certainly going
2 to be relevant in regard to the foreign producers' excess
3 capacity and export orientation.

4 So for 2017 we see that there's an increase in
5 imports. So the most recent and probative evidence of
6 injury shows an absolute increase of Chinese finished
7 flanges, Indian finished flanges, or Chinese and Indian
8 flanges combined.

9 Similarly, if you include forges and flangings,
10 you see an increase from 2016 to 2017 absolutely. This is
11 another just presentation of the fact that we're seeing a
12 surge in imports right now in 2017.

13 As imports have increased in 2017, there has
14 been--and this is from the official import statistics--
15 decreases in their average unit values. And again this is
16 true if you group--if you look at just finished product
17 together, or finished and flanges together--I'm sorry,
18 finished and forgings together.

19 So all of this is kind of pretty straightforward,
20 I think kind of classic ITC injury arguments. This is issue
21 is going to be a little different, however. And we would
22 point out for the Commission's determination that there was
23 a 3-3-7 in regard to the largest Chinese producer of
24 stainless steel flanges during the Period of Investigation.

25 And again I would point out this is one of those

1 issues that I don't think are necessarily
2 outcome-determinative for purposes of the prelim, but I
3 think it is safe to say that this issue will be raised in
4 any final phase investigation.

5 So basically Verrage is a stainless steel flange
6 producer in India. It was a particularly contentious
7 investigation. And just to be very frank, you don't
8 normally see this type of language, as I'm sure all the
9 staff are well aware, from Commission determinations where
10 they're explicitly saying that a company obstructed judicial
11 proceedings, destroyed evidence, and lied under oath.

12 Why I think it is going to be relevant is there's
13 reason to believe that the pending 337 investigation during
14 the three-year period may have distorting effects on the
15 three-year trend. It's not going to distort the evidence
16 for the interim periods for 2017 because we get a
17 significant increase absolutely or relative to market share
18 in 2017, but there is some reason to believe that Verrage
19 rushed in some imports during the pending 337 and the
20 sanctions determination which may have altered kind of the
21 traditional three-year period.

22 And it's public information that Verrage is
23 related to a company called Bebets, who is also an Indian
24 flange producer. And I would like to just tee up that that
25 Verrage-Bebets relationship, and to the extent that Verrage

1 may be continuing to ship to the United States through
2 Bebet, may very well be and I would suggest is very likely
3 to be an issue in any final phase investigation.

4 Dr. Kaplan is going to talk more specifically
5 about the numbers, but the imports are significant. And
6 we're going to brief this a little bit also as to a legal
7 issue, really kind of following up on some of the language
8 in the Commission's determination in Narrow Woven Ribbons
9 when imports, just by their absolute nature are injurious in
10 regard to the three-year period.

11 And then again in 2017 where we're seeing that
12 not only are imports large absolutely and increasing
13 absolutely, but they're increasing their market share and
14 they're increasing relative to U.S. production.

15 In regard to the inelasticity of demands, I think
16 that's going to be relevant, and I think Dr. Kaplan is going
17 to follow up on this as well.

18 The under-selling data is extensive, and it
19 matches what we're seeing in the AUVs. We're seeing price
20 depression obviously of the U.S. producers' sales. And the
21 evidence of material injury I think is extremely strong,
22 regardless if you're looking at shipments, production, very,
23 very low capacity utilization rates, certainly injurious
24 levels of profitability, detrimental effects on capital
25 investment, and injury due to the workers.

1 MR. PICKARD: And then maybe to go quickly
2 through some of the FERC determination issues, clearly, this
3 is a vulnerable industry, especially if you take a look at
4 profitability levels.

5 There is a long history of Indian producers
6 surging in the market -- Indian stainless steel producers
7 surging in the market at low prices. Obviously, the
8 Commission is very well aware of the history of Chinese
9 steel producers and their ability to rapidly enter the U.S.
10 market and at prices. I would suggest the same thing's
11 happening in 2017.

12 There is significant evidence of excess capacity
13 in India and China. Excess capacity of steel in China, I'm
14 sure, is not a shocker for anybody in the room. The Indian
15 stainless steel flange capacity has consistently been found
16 very large. The Commission has previously found that the
17 Indian producers rely heavily on the U.S. product. I think
18 all of this is backed up by the questionnaire responses that
19 have been received to date.

20 History of underselling in regard to the
21 fungibility and the incentive for foreign producers to come
22 here. And I mentioned a couple of times, the level of
23 subsidization. So there are more than 50 allegations or 50
24 programs of subsidization by the Indian government and the
25 Chinese government. I think what's kind of a truly shocking

1 number is there is objective public information that we will
2 include in our press conference brief that shows that the
3 Barrage Bebetz companies have received more than 300 million
4 Euros, which has got to be close to \$350 million of
5 subsidies from the Indian government in the past couple
6 years.

7 And then I would just kind of wrap-up. Clearly,
8 for purposes of a standard for the prelim, the American Lam
9 standard, more than a reasonable indication, right, all the
10 statutory factors as far as the increase in imports,
11 underselling, and harm to the domestic industry. And that
12 there's just as compelling a story in regard to threat based
13 off of, again, the interchangeability of the products, how
14 vulnerable this industry is, the excess foreign capacity,
15 the history of searches, which are re-occurring right now,
16 the history of underselling, which is also occurring during
17 the POI and the significant levels of subsidization.

18 So with that, I think I'll turn it over to Seth
19 Kaplan.

20 STATEMENT OF SETH KAPLAN

21 MR. KAPLAN: Good morning, it's Seth Kaplan of
22 International Economic Research here to discuss the economic
23 conditions in the stainless steel flange industry. I'm
24 going to look at -- presentation's divided into four parts,
25 looking at the conditions of competition, looking at injury,

1 looking at threat. And finally, if you're still awake, I'll
2 put some supply and demand curves up to put you to sleep.

3 First, the conditions of competition. Subject
4 and domestic stainless steel flanges are highly
5 substitutable. They compete head to head. The demand for
6 the product is inelastic. There are no good substitutes for
7 stainless steel flanges. They represent a very small share
8 of the products they are ultimately used in refineries. So
9 if you think of refineries, you could think of the piping.
10 And this is a small share of that. And there's nothing else
11 you could use.

12 So just as an aside to the economist, this is a
13 case where you know, the demand elasticity is likely to be
14 close to 0.1, .2 given its cost of share and its lack of
15 substitutes.

16 In terms of substitutability, as you've seen,
17 it's all to a consistent standard. So the substitution
18 elasticity would be quite high. And as been discussed by
19 the two previous witnesses, demand has declined over the
20 POI.

21 The Commission has found this in the past. In
22 the '94 opinion, they said they are essentially a fungible
23 commodity. They're produced to a common standard. They use
24 the same grades of steel. And the producer and importer
25 questionnaires certify the high degree of substitutability.

1 There's really no question that this is the case.

2 With respect to head to head competition, all
3 purchaser questionnaire respondents rank price as critical
4 and important. Subject imports in the domestic product have
5 similar channels of distribution. They have the same
6 distributors. They have the same end uses. They have the
7 same end users. They compete head to head.

8 Demand is inelastic. As I noted earlier,
9 there's no practical substitutes. The Commission found in
10 1994 that the flanges is relatively inelastic. I would make
11 a stronger statement and I would say they're absolutely
12 inelastic. They're really inelastic.

13 Purchasers would be reasonably insensitive to
14 price changes for stainless steel products. And once again,
15 you're building a refinery. And this is a small part of a
16 small part of the refinery costs with no substitutes.
17 Demand is falling. If you squint, you could tell that
18 demand is declining both over the three year period and it's
19 relatively flat and declining in the interim period.

20 MR. BISHOP: They have hard copies in front of
21 them.

22 MR. KAPLAN: Here we go. As you could see, if
23 you squint, turn your head sideways, and imagine two lines,
24 or look at your handout, you could see that global capital
25 expenditures on oil and national gas refining have really

1 significantly declined. And this is a major end use of
2 stainless steel flanges.

3 Crude oil prices have also declined
4 significantly as you could see on slide 10. And natural gas
5 prices have declined. So you'll note in the Commission's
6 last opinion, they talked about being related to natural gas
7 and oil prices. Even a more direct measure is the
8 refineries. And all three are consistent with declining
9 demand, which is consistent with the apparent domestic
10 consumption you'll see on your record.

11 Now let me turn to injury. If you take a look
12 at slide 13, you'll see that subject imports increased
13 during the interim period, that their share of domestic
14 production volume increased during the interim period, and
15 their share of apparent domestic consumption increased.

16 Note that the last two do not have markings on
17 the vertical axis. These are meant to be indicative, but
18 they do show the direction of change. And the direction of
19 change is an increase.

20 The next slide shows that the volume and share
21 of subject imports are significant. And I think this is
22 very important as an economic matter. The statute speaks to
23 whether the volume of imports or the increase in that volume
24 is significant absolutely relative to production and
25 relative to consumption.

1 I would say in this investigation, you could
2 look at the volume of imports out of context of its changes.
3 And they're just so large. The absolute volume, the import
4 penetration relative to consumption, and the import share
5 relative to production, that the overhang of the market of
6 such high volumes is significant in this industry,
7 especially given the conditions of competition of the
8 inelasticity of demand, the high substitutability among the
9 products, and certainly in the context of the vulnerability
10 of this industry has been demonstrated by the financial
11 condition and the change in capacity utilization, which I
12 asked you to look at closely.

13 For purposes of calculating market share, the
14 Commission has some choices, but I think based on the scope
15 if you look at the next slide, I think this is the
16 appropriate way to calculate market share. And it's at the
17 top. It's domestic forging and flanging -- forging and
18 finishing integrated operations that is -- constitute
19 domestic producers.

20 And so, that if you compare it to second slide,
21 the second slide has finishers as part of the domestic
22 industry. The first slide does not have finishers as part
23 of the domestic industry because their product is an
24 imported product based on the location of production of the
25 semi-finished flange or the unfinished flange. That's what

1 carries the country of origin.

2 So if that is the case, the top one is correct.
3 If you decide to include finishers in the domestic industry
4 and finishers in the denominator, you'll end up double
5 counting because every unfinished or semi^^finished flange
6 that comes in, its only use is to finish it in the United
7 States. So if you count it as an import, you're going to
8 necessarily count it as a domestic product if you count
9 finishers and you'll double count.

10 You could alternatively just look at finished
11 product and count the just finishing operations from imports
12 as part of the domestic industry as you see in the third
13 example. That leaves imported unfinished flanges out of the
14 denominator. So you don't double count, but it then places
15 the imports as part of the domestic industry, because all
16 the value added in the location would now be in the
17 finisher, the second element of the representation in the
18 third example.

19 So I want you to note that any of these will
20 yield the same results in the statutory context. They're
21 still absolutely significant. They're still increasing
22 relative to production and consumption, but at a lower level
23 if you count domestic finishers.

24 But if you count the origin of the
25 semi^^finished flange, or the unfinished flange as the

1 country of origin, then finishers should not be part of the
2 domestic industry for purposes of calculating market share.

3 So I wanted to raise this issue with you. You
4 know, you're going be struggling with it, but I think this
5 will give you an outline. It'll show you when you're going
6 to be double counting things.

7 The next slide looks at it in the context of
8 import penetration. And we believe that import penetration,
9 the numerator, in the next slide would be finished flanges
10 that are imported and finished flanges made from imported
11 semi^^finished or unfinished flanges, which are equal to
12 imported forgings, because the only use for them is to make
13 a finished flange. So all the imports of the semi and
14 unfinished are finished in the United States to become a
15 finished flange. That finished flange we argue is an
16 import. And that's why I have it in the numerator.

17 The second example shows just looking at
18 finished flanges in the United States, whether from U.S.
19 forgings or imported forgings, and then in the numerator,
20 putting the domestic produced product and the imported
21 finished product. Once again, that's going to double count.

22 Now let me turn to pricing. What you could see
23 from the chart in pricing is pretty clear. The imports, the
24 combined pricing, which is the dotted line, is well below
25 the price of the non^^subject imports. As you could see,

1 the red line is the Indian imports. They're the lowest
2 priced in the market. They're the largest in the market and
3 they have fallen continuously, despite declining demand to
4 their prices are falling.

5 You'll also note from looking at the under
6 selling data that there is significant and extremely large
7 margins of underselling that are consistent with the AUVs.

8 So we have the volume effect. We have the
9 increased volume effect, both of which are significant. We
10 have underselling both in the context of AUVs and in the
11 context of head to head comparisons in the staff report. We
12 have price suppression as prices could not rise and clear
13 depression as prices were caused to fall by the
14 underselling.

15 The next slide shows the negative impact as we
16 look at the effects. These are available when you put your
17 staff report together. But with respect to the domestic
18 industry, their output has fallen. Their capacity
19 utilization has fallen. Their sales have fallen. Their
20 shipments have fallen. Their market share have fallen. And
21 with respect to the financial indicia, the return on
22 investment is down. Their cash flow is down. Their profits
23 are down no matter how you measure them. Gross profits,
24 operating profits, net profits.

25 Their margins are down, the gross margin, the

1 operating margin, the net margin. Their ability to raise
2 capital had been hindered. Their investment's been
3 hindered. Their growth has been hindered. And other
4 factors affecting prices and dumping margins affecting the
5 financial indicia also indicate injury.

6 With respect to employment, their total
7 employees are down. The hours worked are down. The wages,
8 the total wages are down. All of these show an industry
9 that is injured by imports.

10 When we turn to threat, and the threat factors
11 are all met in this case. There is significant excess and
12 divertible capacity in the subject countries. Their market
13 penetration has increased over the interim period and
14 there's likely to be further increases, given that the size
15 of the U.S. refinery market, the decline in refinery and
16 other locations, and the importance of the United States as
17 a flange consumer.

18 The imports have already caused price depression
19 and suppression. There is no reason, given the margins and
20 underselling and their increases to consider that would
21 change.

22 I'll discuss inventories in the post conference
23 brief. There is potential for product shifting. I would
24 ask you to look at the questionnaires of the foreign
25 producers and the domestic producers. These machinery and

1 equipment could be used to make out of scope and non^^like
2 product merchandise.

3 Information regarding the counter available
4 subsidies and the size of the counter available subsidies
5 has already been provided and it will be provided in great
6 detail. The magnitude of these are extreme even by the
7 Commission's standards of seeing large subsidy rates. And
8 finally, there are other adverse trends we will discuss in
9 our post-hearing brief.

10 Discussing the excess and divertible capacity,
11 we looked at Chinese exports and Indian exports. And what
12 you see only a small share of Chinese imports are entering
13 the United States. And only a relatively small share of
14 Indian exports are entering the United States. 23 percent,
15 30 percent, and 25 percent as shown. The combines are
16 small. There is a lot of divertible capacity, not only
17 counting the excess capacity you will see in the
18 questionnaire responses from the subject producer. There
19 are no shortage of dumped and subsidized flanges that come
20 into the United States. And there's every reason
21 considering the threat factors that they will.

22 The next slide is a graph of the table that you
23 saw just putting it in another context.

24 So now let me turn to an economic analysis. And
25 I want to make two points in the economic analysis. The

1 first is is that, but for the unfair imports, the domestic
2 industry would be materially improved. This is a textbook
3 comparative statics exercise that shows that the effects
4 would be enormous in a positive sense if you -- do a but for
5 exercise. And then looking at the other way, it shows the
6 massive injury that's caused.

7 Demand is inelastic, meaning that every import
8 that comes in takes away a sale from a domestic producer or
9 a non^^subject producer. Substitutability is high, meaning
10 that there is no other alternative product that's going to
11 be used. It's a one-for-one substitution. The subject
12 import market share is very high, meaning that any
13 correction to that share will have large benefit of --
14 beneficial effects on the smaller domestic industry which
15 has excess capacity.

16 The alleged margins are high, meaning that if
17 the duties were put in place, there would be a significant
18 shift of demand to domestic producers. And there's evidence
19 of significant subsidization, which also shows that those
20 margins are put in place.

21 So under these conditions of competition, the
22 stainless steel flanges Industry, the effects of unfair
23 trade are material. And the effects of remediating that
24 unfair trade would be a material benefit. This fits with
25 the notion that the absolute volume of imports is injurious,

1 whether you look at the increase or not. I can't say that
2 in any stronger terms. I think the staff should note that
3 in the staff report that that is the -- my economic opinion
4 and that is the legal opinion that we think the absolute
5 volumes even without the increase we've seen in the interim
6 period, are injurious in this investigation given the
7 underselling, given the large volumes, given the decline in
8 demand that makes the industry vulnerable.

9 Now let me turn to some supply and demand curves
10 and explain why with declining demand the domestic industry
11 should actually be picking up share and they're not.

12 So this is the situation where you see the
13 domestic industry supplying up to the price of the imports.
14 And they have this much sales. The imports supply at this
15 price till it reaches domestic demand. So here's the
16 domestic start. And here's the import start at that price.

17 When demand declines, when that demand shift
18 occurs and demand declines, you're going to have less in the
19 total market. You've seen that, right? The market shrinks.
20 That's what you've seen in this investigation.

21 In a normal set of circumstances with -- and
22 this is assuming perfect substitutability, but very high
23 substitutability is close, that you should see all of the
24 adjustment from the demand shift should occur with the
25 subject imports. Domestic stays the same. Subject imports

1 decline. The market gets smaller. Domestic share
2 increases.

3 That is not what you've seen. You've seen
4 domestic sales decrease. You've seen import share increase
5 over the interim period. Why is that? Dumping, dumping
6 lowers the price. And so, instead of the U.S. producer
7 retaining this share that he had before, the price falls and
8 the U.S. producer moves down the supply curve and suffers a
9 decline in shipments.

10 What about on the other side from the dumping?
11 Well, that makes the price of the import cheaper. So in the
12 original decline and demand, you saw the -- there's the
13 original decline. You saw the share of the volume of
14 imports fall, fall from there to there. And what happens
15 with the dumping? It gets some of it back.

16 The demand decline should have caused a much
17 larger decline in the imports, but the dumping makes up for
18 some of that. So instead of saying with declining demand
19 the U.S. industry holding its own, and gaining share, you
20 see the U.S. industry losing sales and either holding its
21 share or losing share.

22 So the evidence in this case, where all agree
23 that demand is declining, indicates injurious effects of
24 imports. So look at it in the context of dumping and
25 declining demand we see injury. In the context of the

1 absolute volume of imports given the dumping margins, the
2 substitution demand elasticity, we see injury. And looking
3 at a classic trends analysis during the interim periods, we
4 see injury.

5 That concludes my presentation. I'd be happy to
6 answer questions.

7 MR. ANDERSON: Thank you all for your
8 presentation and for being here today. It's been very
9 helpful and we'd now like to move into questions for our
10 staff and let's start with our investigators, Mr. Enck.

11 MR. ENCK: Good morning and thank you for coming
12 to answer our questions and giving the presentation.

13 So Mr. Pickard and Dr. Kaplan stated that
14 subject flanges are interchangeable with the domestic
15 product; is that true of non-subject imports, Canada in
16 particular, or do they serve different markets?

17 DR. KAPLAN: Mr. Maass is the market expert. I
18 could add information later, but I don't want to --

19 MR. MAASS: I didn't hear the last part of your
20 question. Non-subject, such as Canada, you said?

21 MR. ENCK: Non-subject imports of stainless
22 steel flanges from non-subject countries, Canada, in
23 particular, are they interchangeable?

24 MR. MAASS: Yes.

25 MR. ENCK: Do they compete in the same market?

1 MR. MAASS: Yes. Yes, all considered to be,
2 more or less, equal. In fact, some of the flanges that I
3 brought there with me, one of which just happened to be from
4 Italy. I just had it available. There's no other reason
5 why I brought one from Italy, but they are fully
6 interchangeable and you can't even tell them apart putting
7 them on the pieces of paper, so Canada go along with that
8 same answer.

9 MR. ENCK: Okay, thank you.

10 DR. KAPLAN: I'd like to add, as a physical
11 matter, they're interchangeable. There are market
12 conditions that make them a commodity-like product, but not
13 a pure commodity product like a metal. So they're highly
14 substitutable and I would characterize them as
15 commodity-like.

16 MR. ENCK: Okay. Okay, you mentioned the Limited
17 Exclusion Order and Cease and Desist Order against Varage.
18 Now do those Orders also apply to Bebetz?

19 MR. PICKARD: To the best of my knowledge, no,
20 and I have a feeling we're going to end up briefing, for the
21 first time in my career, 337, in an anti-dumping case to a
22 certain extent. But there is a significant amount of
23 evidence that a lot of the Varage product is coming through
24 Bebetz.

25 I don't know if you would like some information

1 about that now or if you would prefer to get it in our
2 post-conference brief.

3 MR. ENCK: Post-conference brief is fine. So it
4 looks like your theory of decline in demand is based on the
5 oil and gas industry; is that correct?

6 DR. KAPLAN: Refining is a significant end use
7 of this product. I think you could look at it kind of from
8 both directions. Your apparent domestic consumption data
9 will show a significant decline over the period of
10 investigation with prices falling, which is consistent with
11 declining demand in the market. And when you look at the
12 end uses directly, in this case we looked at refining and
13 oil and gas prices, that's consistent with your apparent
14 domestic consumption data. We could provide, if you'd
15 like, information on other end uses.

16 You've had many cases of a pulp and paper
17 industry before you, as we move to computers, that there's
18 less paper being used and that's a process industry as well.
19 So the data showed decline in demand and the drivers are
20 consistent with that explanation.

21 MR. ENCK: Okay. Yes, I think I would be
22 interested in any additional information. I think we
23 mentioned defense applications, even pharmaceutical
24 applications, those end markets and the share of the market
25 that they account for and trends that we see in those.

1 MR. PICKARD: We'll put that information
2 together for you in the post-conference brief. It's my
3 understanding that refining and petro-chemical industry are
4 a very large share of the end use and I would ask you to
5 look at the locations of the domestic producers in this
6 investigation and I think that's consistent with my
7 statement.

8 MR. ENCK: So based on the record, it looks like
9 there are some out-of-scope products coming in under the two
10 primary HGS numbers that we rely upon. I think that they
11 are the large and small flanges as defined in the scope,
12 those that fall outside of that. Are there any other
13 products that might enter?

14 MR. PICHARD: Not that I know of, and to the
15 best of our knowledge, the out-of-scope that are captured in
16 those HGS numbers the HGS numbers are pretty clean and to
17 the extent that there would be non-scope in there are
18 probably single-digit percentages.

19 MR. ENCK: Okay, thank you. Okay, that's all I
20 have for right now.

21 MR. ANDERSON: Okay, I'll turn the microphone
22 over to our other investigator, Amanda Lawrence, but just a
23 reminder, if you could state your name before you speak for
24 the reporter. Even though he's right there, it makes the
25 transcribing a lot easier for them. Thank you.

1 MS. LAWRENCE: Okay, thank you. Are you aware
2 of any anti-dumping or countervailing duty orders on the
3 subject product from China or India in third country
4 markets?

5 MR. PICKARD: No, I'm not.

6 MS. LAWRENCE: Okay, thank you. And then also,
7 in reviewing the import data that was provided in the
8 petition, I notice there is a decline in imports from both
9 China and India from 2014 to 2016 and this is both in the
10 forges and the finished product. Can you comment on the
11 decline prior for the three years leading up to 2017?

12 MR. PICKARD: Yes, I've got a couple of
13 different comments about that. So under the ITC's kind of
14 traditional trend analysis, I would say it looks at the
15 three-year period and it looks at the interim period. And
16 it's our position that the interim period is probably most
17 probative in regard to the preliminary determination and in
18 that case we see an absolute increase and a relative
19 increase, but it's true the HGS numbers show a decrease from
20 2014 to 2016, looking at the three-year period.

21 And certainly, part of that is a function of
22 demand, but what we see is even in a period of declining
23 demand subject imports maintain a very large presence,
24 absolutely, and a large presence by share that consistent
25 with the statute that absolute present, it's our position,

1 should be deemed to amount to material injury. And I have a
2 feeling Dr. Kaplan might follow up on this, but this is one
3 of the questions and we don't think that the ITC
4 necessarily has to fundamentally change their approach to
5 reach an affirmative determination in this case, right?
6 Under the most traditional trend analysis, you see an
7 increase in 2017 as compared to 2016 absolutely by market
8 share. That is the most kind of traditional ITC analysis
9 that I'm aware of.

10 We would point -- and this is one of the things
11 that we were talking about in preparation for the hearing
12 that there's a couple of different ways of looking at this
13 and I think one of the problems with the trend analysis,
14 especially in regard to just kind of taking a look at a
15 decrease in absolute numbers. And this is a little
16 simplistic, but I think it's kind of encapsulates our
17 concern. If I stole \$10,000 from you two years ago -- and I
18 think we would all agree that that would be injurious -- and
19 I told \$10,000 from you last year, I think everybody would
20 agree that would be injurious; but if I only stole \$9,000
21 from you this year, under a trends analysis, there's a
22 chance that that can get lost. And I would submit if you
23 took \$9,000 from me this year, even though it's less than
24 how much somebody stole from me the year before, it would
25 still be injurious.

1 DR. KAPLAN: I'm going to be a little less
2 theoretical. One of the things we'll look at in the
3 post-hearing is we're going to look at the monthly data from
4 India with respect to the Exclusion Order and how that might
5 have affected imports during 2016 and then look at the
6 market share in 2017 when that disruption may have been
7 alleviated. So if you note, you will see share numbers in
8 2017 that are high and increasing and consistent with the
9 high levels of shares during the three years of the POI,
10 other than the third year, which is still quite high.

11 So I made my remarks earlier about why they're
12 injured based on economic theory. I think that from a
13 trends analysis the interim data is overwhelming with
14 respect to the movements in volume. I think that price
15 factors throughout the whole investigation, that the
16 underselling was significant, and on the pricing alone that
17 supports what happened with the affects that you see in the
18 domestic industry that were in poor health throughout the
19 period of investigation. This industry was injured for
20 three and a half years of your three and half year record,
21 so you could look at the trends and say I see what's
22 happened in the interim period and you have a full half
23 year, which is more than enough of an economic matter and a
24 historical matter at the Commission to reach an affirmative
25 finding. But you see a case here where they're injured in

1 each and every period, all full three years and one half
2 year, given the conditions in the high level of imports.
3 So I hope that's helpful.

4 MS. LAWRENCE: Yes, thank you. That's all my
5 questions.

6 MR. ANDERSON: Thank you very much and Ms.
7 McNamara.

8 MS. MCNAMARA: I also want to thank you all for
9 coming and doing this presentation. It's always very
10 helpful for us to have you come here.

11 First of all, with respect to domestic-like
12 product, if you could -- Mr. Pickard, if you could run
13 through the semi-finished analysis in your post-conference
14 brief that would be helpful.

15 MR. PICKARD: We'll be happy to do so.

16 MS. MCNAMARA: Great. And then I just want to
17 talk a little bit about the size exclusion, and you
18 mentioned that there were bright line dividing this based on
19 the -- did you say the ASME Standard? Okay, can you
20 elaborate on that a little bit?

21 MR. PICKARD: Sure. Would you like us to do
22 that now or in the post-conference brief?

23 MS. MCNAMARA: Either way. If you want to do it
24 in the post-conference, that's fine. I would just say that
25 it might be helpful to run through the factors the

1 Commission typically considers. In other words, if the
2 Commission were to consider whether to expand the
3 domestic-like product beyond those -- that scope exclusion,
4 it would be helpful to understand why you chose that scope
5 and to turn through the traditional factors. I think that
6 would be useful.

7 MR. PICKARD: Sure. Why don't I nutshell it for
8 you right now and then we'll do the full six factor.

9 So the ASME Standard goes from half inch to
10 24-hinch, so that's kind of the objective standard. That
11 were we came up with the bright line, but we'll walk you
12 through kind of different employees, different production
13 processes, and we'll be happy to do that in the
14 post-conference brief because that'll also allow us to
15 share some business proprietary information.

16 MS. MCNAMARA: Great, thank you very much. That
17 would be helpful.

18 Now with respect to the domestic industry, if I
19 understand it, you want to define the domestic industry as
20 integrated producers and not the finishers or converters; is
21 that correct?

22 MR. PICKARD: In a nutshell, again yes, I think
23 that's most appropriate because of how the scope is drafted.
24 So to the extent that you've got converters who are taking
25 subject merchandise, in this case, they're further finishing

1 operations would still be subject to the scope of the case.

2 MS. MCNAMARA: Right. And it would also be --
3 so that I can understand it, if you could lay that out in
4 your post-conference brief that would be helpful, but if you
5 could also address the factors the Commission considers in
6 sufficient production-related activities that would be very
7 helpful too.

8 MR. PICKARD: Sure. We'll run through that.
9 And the only follow up I would say -- and I think it becomes
10 kind of a two-pronged question, right, that even if under
11 the Commission's traditional analysis regarding whether it's
12 a sufficient production-related activity to rise to the
13 level of being a domestic producer then I think there's
14 going to be several of those producers should they be deemed
15 to be U.S. producers who are going to have issues under the
16 Related Parties provision.

17 MS. MCNAMARA: Right. And if you could brief
18 that as well that would be very useful.

19 Now I know you were talking about the
20 interchangeability and saying that they were fungible, the
21 subject imports of the domestic-like product. Are there any
22 factors that limit substitutability?

23 MR. PICKARD: I'll start. None that come to
24 mind, considering that they're made to the exact same
25 specifications, right, that these are commodity products.

1 And by definition, if they're being made to the same
2 specifications for the same purposes and the same end uses,
3 I would say that's about as interchangeable as you're going
4 to get. And I would also suggest that that's fully
5 consistent with the Commission's previous findings in regard
6 to this product.

7 MS. MCNAMARA: If I understand Mr. Maass's
8 presentation, you mentioned customer specifications. Is
9 that something that's different than the standard
10 specifications that go in?

11 MR. MAASS: The customer specifications would be
12 items that would be out-of-scope. They would be specialized
13 flanges that would probably not be up to the AMSE standard,
14 somebody that wants something by a drawing or things like
15 that. We also do that, but that's out-of-scope.

16 MS. MCNAMARA: And there was also, I think, a
17 mention of approval list. Can you explain how that plays
18 out in the market?

19 MR. MAASS: Approval lists, they should be seen
20 as not in the sense as only approvals, but a guideline for
21 the purchasing thereof -- of products, of flanges. And as I
22 had mentioned in my statement, yes, there is an approval
23 list -- not a approval list. There are many different
24 approval lists by many different end users that are out
25 there. They are used as a guide for the purchasing

1 department or departments. They are used to extent that it
2 is a preferred product list. And based on pricing and
3 availability, they always deviate from those lists. So if
4 you have a product available that is available at the same
5 price as a import non-approved product or just as a product
6 that is not on the AML list, then their preferred method
7 would be to go and buy the product that is made by an
8 approved vendor. If the price is less from a non-approved,
9 considerably less, then they many times deviates from their
10 approved vendors list. So that's usually how it functions.

11 MR. PICKARD: If I could just follow up kind of
12 quickly on that, and I think what Alex said in his testimony
13 there were just maybe three follow-up points is, first, to
14 just kind of highlight the fact that the vast majority of
15 sales in the marketplace are controlled by an approved
16 vendor list. By at least one estimation, at least 75
17 percent or more are not approved.

18 And then it was interesting when we were
19 preparing for the hearing that it became clear that the
20 approved list has a tendency of being more a preferred list
21 rather than an approved list in that if there's enough of a
22 price difference -- if imports are low enough, that people
23 will buy from non-approved vendors.

24 And then the last thing I would just throw on
25 quickly is not only are there -- and this might not always

1 be immediately apparent -- Chinese and Indian companies that
2 are on the approved list, but on top of that you have U.S.
3 finishers who use Indian and Chinese flanges and those
4 finishers are on the approved list.

5 DR. KAPLAN: I'd like to add one more comment to
6 that, and that was when Mr. Maass and Mr. Pickard spoke
7 about the price differential overcoming the approval that's
8 the type of thing that makes this product commodity-like and
9 not commodity. So I just wanted to emphasize that so that
10 there's several things that will kind of drive a wedge
11 between a pure commodity and that one of them is this
12 approval list where -- which is really a preferred that's
13 overcome by a steep enough discount.

14 The second, it was discussed by Mr. Maass in
15 that since there are a lot of skews there is occasionally
16 availability issues. You know if you think of a commodity
17 there typically are not many, many, many skews. There's a
18 couple different grades of whatever chemical or metal there
19 is. Here there's a lot of skews. So while it is -- they
20 are all identical to each other, it kind of moves it from
21 the commodity to the kind of commodity-like thing.

22 So I discussed availability. We discussed
23 lists. And then there's also a preference among some end
24 users to multiple source and so that would create a
25 potentially a commodity-like situation and move it away from

1 the commodity there. So those are three different reasons I
2 wouldn't characterize this product as a commodity, but
3 nonetheless, a highly substitutable and price sensitive.

4 MS. MCNAMARA: What about Buy American policies?
5 Do they come into play -- oh, I'm so sorry, you go ahead.

6 MR. COOK: David Cook with Maass Flange. In a
7 nutshell, to put it in summary, the approval list used to
8 mean something years ago to us and we benefited from that.
9 But now that a lot of the users have put Chinese and Indian
10 manufacturers on that approval list, it doesn't mean that
11 much anymore.

12 MS. MCNAMARA: Thank you. What about Buy
13 American policies? Do they have any role in this market?

14 MR. MAASS: Alex Maass. The Buy American that
15 we see is almost nothing. And we would have to quantify
16 that gut feel would put it at 2%.

17 MS. MCNAMARA: Now, I know we've talked a little
18 bit about the cumulation in the petition and in your
19 presentation today. But if there's any additional
20 information that you could add from the record in these
21 proceedings, that would be helpful for the factors.

22 MR. PICKARD: Dan Pickard, again for the record,
23 we'll include that in our post-conference brief.

24 MS. MCNAMARA: Now I want to talk a little bit
25 about decline in demand. And I know that you were talking

1 about addressing that some in the post-conference brief.
2 But if you could also brief and lay out why the Commission,
3 how the Commission can assure that it's not attributing any
4 injury to the decline in demand. That would be really
5 helpful, too.

6 And then I also want to talk about the interim
7 periods and if you could -- first of all, I want to ask
8 about -- are there any -- because this is looking at a
9 six-month snapshot and another six-month snap-shot, as
10 opposed to full-year data -- is there anything, any business
11 cycles, any cyclical components here that might call into
12 question the reliance on the beginning of the year?

13 MR. PICKARD: Dan Pickard. I don't believe so.

14 MS. MCNAMARA: Okay. And if you could also
15 explain what was going on 2017. And I know you talked about
16 the 337, if you could lay that out in the post-conference
17 brief, that would be helpful. And anything else.

18 MR. PICKARD: Happy to do so.

19 MS. MCNAMARA: And if you could also look at --
20 and this is something, you know, to probably address in your
21 post-conference, but if there's a correlation within the
22 three full-year periods, if we see a decline in the volume
23 of imports? And then in 2017, it's higher than it is in
24 2016. Does that correlate with the domestic industry's
25 injury?

1 MR. PICKARD: Dan Pickard. Again, we'll be
2 happy to do so.

3 MS. MCNAMARA: Great, thank you. Again, there's
4 been some discussion about the AUVs and the comparisons of
5 the AUVs of subject imports and the domestic industries. Is
6 there any product mix issues that were called into question?

7 MR. PICKARD: I think there's always the
8 potential for product mix issues with AUVs. I think they're
9 helpful in that they confirm also what you're seeing in the
10 underselling data. The Chinese imports are lower-priced
11 than the U.S.-produced product, and it confirms decreases in
12 price depression for the U.S. producers.

13 DR. KAPLAN: Seth Kaplan. Once again, if you
14 take a look at the nonsubject import prices, they're higher
15 than both the subject producers. And I think that
16 information is useful from the causation perspective and I
17 think that information is useful from the commodity versus
18 commodity like perspective. I think that kind of goes to
19 both of those points.

20 MS. MCNAMARA: Okay. If, in your
21 post-conference brief, if there's any more information that
22 you could add from these proceedings to the threat analysis.
23 I know that you went through it in yours. If you could put
24 that laid out in your brief, that would be very helpful.
25 And that's all I have for right now. Thanks.

1 MS. VON KESSLER: Hi, everyone. Thank you for
2 being here this morning. We've talked a lot about demand
3 and interchangeability, so I'll kind of move on. First I'll
4 ask, how do you typically purchase your raw materials?
5 Through spot market or contracts?

6 MR. MAASS: Yeah, this is Alex Maass. We
7 purchase our raw material -- can I disclose that in our
8 post-conference brief? I think it would --

9 MS. VON KESSLER: Of course.

10 MR. MAASS: -- be more appropriate. Yeah.

11 MS. VON KESSLER: Of course.

12 MR. MAASS: Thank you.

13 MS. VON KESSLER: And if it's more appropriate
14 for the post-conference brief, too -- any description of how
15 changes in the raw material costs affect the price of
16 flanges, and if you're at all able to pass that through to
17 customers?

18 MR. MAASS: I would be very glad to put that in
19 the post-conference brief.

20 MS. VON KESSLER: Great. Thank you. Does the
21 price of the flange vary based on the thickness of the pipe
22 that's going to be used? Such as -- I've seen a mention of
23 a Schedule 10, 40, 80 or 160.

24 MR. MAASS: That's a very good question. Alex
25 Maass again. And when you mention pipe, the pipe pricing --

1 we're not talking about pipe here, we're talking about
2 flanges, correct?

3 MS. VON KESSLER: Yes.

4 MR. MAASS: I want to be very clear so there's
5 no confusion. Pipe is priced based on wall thickness or
6 schedule, because it severely impacts the weight of the
7 pipe. Just the way the pipe is made, whether it's welded
8 or, you know, extruded. And the amount of weight represents
9 the amount of input weight, which in turn requires the
10 amount of steel that goes into the pipe manufacturing. So
11 there's a direct one-to-one correlation between pipe
12 wall-thickness and pipe pricing, which is very logical.

13 With our flanges, if you look at some of the
14 flanges that are laying here on this end, the blind flange,
15 which is just a disk with no hole in it, the nominal pipe
16 thickness is irrelevant because there is no pipe that butts
17 up to it. It butts up to another flange. So the answer for
18 the product would be 100,000% no.

19 The next flanges that are laying there, whether
20 it's a slip-on or a socket weld, the same thing applies
21 because the pipe slides into the flange and you can have any
22 wall thickness sliding into it, so the answer would be
23 affirmative, 100% no, would not affect it. And then you
24 have the welding neck flanges, the flanges with the neck
25 coming up, the taller pieces. There you could say that the

1 wall thickness does come into context, but if you look at
2 the forging or the semi-finished flange that you see there,
3 it doesn't even have a hole drilled into it yet.

4 So the amount of weight to manufacture these
5 flanges stays the same. The cost basis to make a thin-wall,
6 as well as a thick-wall, from a manufacturing point of view,
7 is the same. And the wall thickness would not play a
8 factor.

9 If anything, logically thinking, the thinner the
10 wall, the less material you'll have, it should be less
11 expensive. That would be pipe reasoning. But in our
12 reasoning, we have more machining time to spend to machine
13 the thinner wall thickness, so we have more effort put into
14 it, so technically from a costing point of view, the
15 thin-wall flange should cost more than the thicker-wall
16 flange which requires less machining. But from a pricing
17 market point of view, it's not accepted. So there's one
18 price for pretty much any wall thickness there is.

19 MS. VON KESSLER: Great, that's really helpful.
20 Thank you. And my last question is more kind of on current
21 events. Did Hurricane Harvey, since you guys are in
22 Houston, impact your production facilities at all?

23 MR. MAASS: We got very lucky and had no impact
24 from Hurricane Harvey with the exception of about two and a
25 half days of lost productivity or reduced productivity

1 because of that. People getting flooded and not making it
2 to work.

3 MS. VON KESSLER: Right. Okay. And to the
4 extent possible -- I know it's very soon to tell, any impact
5 on demand in the region since there's a lot of refineries?
6 If you could describe that in a post-conference, if you have
7 any information, would be helpful.

8 MR. PICKARD: We'll be happy to do so.

9 MS. VON KESSLER: That's all I have.

10 MR. ANDERSON: Thank you. Now, Mr. Boyland.

11 MR. BOYLAND: Good morning. Thank you for your
12 testimony. I've sent the company follow-up questions. I
13 appreciate your time answering those. And I'm gonna try not
14 to overlap here. A lot of questions that I was gonna ask
15 have already been asked.

16 So, I guess one question was, with respect to
17 unfinished flanges, you sell those as well commercially?
18 The focus here has been the finished flange. But could you
19 talk a little bit about the unfinished flange?

20 MR. MAASS: Your question is, do we sell
21 unfinished flanges to machine shops? Converters?

22 MR. BOYLAND: Right, yeah, third-party
23 commercial sales.

24 MR. MAASS: We do on a very, very small selected
25 scope. It's not our core business, and here again, I would

1 say it would account for less than 3% or 4% of our total
2 sales.

3 MR. BOYLAND: Okay. With which --

4 MR. MAASS: And then -- and I have to add to
5 that, that's just our general production. And that might
6 not, it might be even less than that for inscope.

7 MR. BOYLAND: Okay.

8 MR. MAASS: So if you take -- if I have to think
9 about inscope, it would be almost nil.

10 MR. BOYLAND: Okay. Thank you. With respect to
11 your opening testimony, you talked about significant
12 decline, and I believe you referenced 50% now of sales would
13 be, of what we're interested in. What would --

14 MR. MAASS: Correct.

15 MR. BOYLAND: -- the remainder be? What's the
16 other --

17 MR. MAASS: This is Alex Maass again. If you
18 look back many moons ago, during the last anti-dumping
19 action in the '90s, the inscope merchandise represented more
20 than 90% of our turnover. That has diminished to about 50%
21 or less. The remaining is out-of-scope merchandise,
22 different higher material grades and, as I had mentioned
23 before, customer-specific flanges made to drawings,
24 etcetera, that is out-of-scope.

25 MR. BOYLAND: Gotcha. Okay. With respect to

1 product mix, Courtney asked a question, and I'm asking it a
2 little differently. With respect to your product mix,
3 during the period, did it change significantly, in terms of
4 the types of flanges? Within the scope that we're looking
5 at. Was there a change, a shift?

6 MR. MAASS: During which time period?

7 MR. BOYLAND: During the period. In other
8 words, if I'm looking at '16, '17, '14, '15, should I expect
9 to see any changes in average value? Simply because there
10 was a shift in the types of flanges being sold?

11 MR. MAASS: The types of -- Alex Maass again --
12 during the '14, '15, '16 time period, the types of flanges
13 stayed the same.

14 MR. BOYLAND: Okay. So for any given period,
15 I'd see essentially the same profile?

16 MR. MAASS: One-to-one match-up, correct.

17 MR. BOYLAND: Okay. And this may be a BPI
18 question, but with respect to hedging, does the company
19 engage in any hedging?

20 MR. MAASS: No, sir, we don't.

21 MR. BOYLAND: You don't? Okay. And this is
22 probably a--obviously a--BPI question, we're looking at a
23 particular period. Prior to this period, what would the
24 company have expected in terms of gross profit during this
25 type of a business cycle? I mean what would --

1 MR. MAASS: We will be more than glad to discuss
2 that during the brief.

3 MR. BOYLAND: Thank you. And just a final
4 question. With respect to sales, is it correct that we're
5 looking at a mix of FOB plant delivered? I mean it sounded
6 from your testimony that not all sales are gonna be picked
7 up by your customers? Some are delivered. Are we looking
8 at sort of a mix of FOB plant delivered sales?

9 MR. MAASS: The information provided to you of
10 the inscope information, it's my understanding it's all
11 based on FOB terms.

12 MR. BOYLAND: FOB plant?

13 MR. MAASS: FOB plant, yep.

14 MR. BOYLAND: All right, thank you. I have no
15 further questions.

16 MR. ANDERSON: Thank you, Mr. Boyland. Mr.
17 Guberman.

18 MR. GUBERMAN: Thank you, Mr. Maass, Dave
19 Guberman. Thank you for coming today. I have a question
20 about the manufacturing process. And if you could describe
21 the differences in the manufacturing process for the
22 stainless steel flanges, and other types of flanges, such as
23 the carbon steel units, and whether companies typically
24 specialize in one type of flange production, or if they go
25 back and forth between stainless steel and carbon.

1 MR. MAASS: Yeah, this is Alex Maass. The
2 dimensional specifications for flanges, no matter what grade
3 they are, are the same. The process of carbon steel is a
4 little bit different than the process of stainless steel.
5 The carbon steel is a more higher volume production as a
6 whole. If you look at it, it's mass produced.

7 We also produce some carbon steel that is
8 usually for customer-specification drawings, etcetera. We
9 do see quite a few traditional carbon steel manufacturers
10 coming into the stainless steel market, substituting their
11 capacities. Maass Flange, as a whole, has been focusing on
12 efficiently producing stainless steel flanges since the
13 '70s. And that's our core business and we typically do not
14 produce large volume carbon steel production runs.

15 MR. GUBERMAN: Are there different steps though
16 in the forging and finishing processes that are -- you mean,
17 it's a stainless steel?

18 MR. MAASS: Stainless steel has a couple of
19 additional steps to that. The carbon steel, it seems to be
20 an easier process to do. And the higher the alloy grades
21 go, the more demanding the production process is. And also
22 the more demanding the equipment is to process those steels.

23 MR. GUBERMAN: Okay. Can you describe some of
24 the major applications for the stainless steel flanges and
25 kind of break that out, percentage, how the pie would be

1 divided domestically, in terms of end uses? And then are
2 certain alloys required for certain applications of
3 different stainless steel grades I'm referring to --

4 MR. MAASS: I'd be very glad to answer those
5 questions. I feel some of those are proprietary and we'll
6 disclose those in the brief.

7 MR. GUBERMAN: Okay. Can you talk about, just
8 in somewhat general terms, some of the major factors that
9 have affected stainless steel prices during the last three
10 years? What have been some of the major factors that have
11 moved prices?

12 MR. MAASS: Alex Maass again. When you say
13 stainless steel prices, you mean the raw material rates?

14 MR. GUBERMAN: Yeah, raw material.

15 MR. MAASS: The biggest influencing factor on
16 stainless steel prices, generally speaking, is the nickel.

17 MR. GUBERMAN: Okay.

18 MR. MAASS: Nickel tracks fairly close to
19 stainless steel pricing, as well as there's moly, the
20 ingredients that go into making the steel have a linear
21 relationship to pricing in the market. And the stainless
22 steel pricing in general is a commodity, right? Steel is a
23 commodity. Nickel is a commodity.

24 Scrap pricing that goes into making the steel,
25 by scrap. And that gets dealt with at the London Metal

1 Exchange, LME pricing. It's all publicly available. And it
2 tracks very close to global stainless steel pricing. Very
3 similar to crude oil pricing. You could almost think about
4 it at that level of commodity.

5 MR. GUBERMAN: So stainless steel price can be
6 more volatile than carbon steel because of the nickel?

7 MR. MAASS: That is correct. Carbon steel seems
8 to move somewhat slower than stainless steel. Stainless
9 steel responds fairly quickly to nickel movement, even
10 though there hasn't been so much erratic nickel movement as
11 there was in, say, uh, early 2000's, 2006 or 2008.

12 MR. GUBERMAN: Okay, thank you. I have a
13 question about types of products and whether the intention
14 would be that they're included in the scope. I know there's
15 some flanges manufactured for exhaust systems for motor
16 vehicles because the motor vehicles, from what I understand,
17 exhaust systems are primarily made from stainless steel.
18 And there's companies that make flanges that connect pipes
19 in the exhaust systems for stainless steel -- that are made
20 from stainless steel. Was the intention when the scope was
21 written that they be included?

22 MR. PICKARD: If the product meets the physical
23 characteristics of the scope, then we would say, yes, that
24 it was intended to be included.

25 MR. GUBERMAN: Okay. And even if they don't

1 meet the ASME, the B-16.5?

2 MR. PICKARD: I believe our scope specifically
3 lists ASME as what are the primary characteristics of the
4 scope, but if there are specific products at issue we'd be
5 happy to brief that.

6 MR. GUBERMAN: Okay. And a question about
7 manufacturing process, can you briefly talk about the
8 differences between the forging casting and stamping
9 flanges. What are the different characteristics that are
10 imparted by forging that you wouldn't get from the other
11 processes, if there are any differences?

12 MR. MAASS: The general principle of casting
13 versus forging -- stamping you'd have to better define the
14 stamping, what you're meaning. If you mean stamping it out
15 of sheet metal stamping, then I'm not aware of any flanges
16 being stamped out sheet metal in that sense because you
17 cannot get the contour and you wouldn't need the B-16.5
18 standard because it requires a forging process, a
19 hot-working process to be involved.

20 Also, B-16.5 requires the flanges to be, just
21 like I said, forged not cast. My understanding is that
22 casting is a manufacturing process which effectively melts
23 the metal and molds it in a molten form, yes, so like it's
24 like liquid wax being poured into something that molds it.
25 We don't do that. We do not liquefy anything. We only heat

1 it up to a 2200 to 2300 degree Fahrenheit temperature, which
2 doesn't liquefy the metal. It makes it pliable. And that
3 soften metal is like having soft butter versus butter out
4 of the refrigerator. It gets forged or stamped -- when I
5 say 'stamped,' it gets hammered into the mold that makes the
6 forging laying there on the table. It's a hot-working
7 process, a hammering process. There's a lot of noise and
8 banging and flames going on. It is not liquefied at any
9 state.

10 MR. GUBERMAN: Okay, thank you. Another
11 question about the standards, ASME B-16.5 standard, that's a
12 standard for the forging, right, not the finished product?
13 When does it meet that standard, when it's forged or when
14 it's finished.

15 MR. COOK: The ASME B-16.5 is a dimensional
16 standard as to what you see for the finished flange there.

17 MR. GUBERMAN: Okay.

18 MR. COOK: It's not necessarily to the forging.
19 A lot of different manufacturers make forgings in different
20 ways. We make ours in a close-dye process, in which Alex
21 mentioned earlier; only just a small amount needs to be
22 machined off. There's other forgers that have larger pieces
23 of metal to start with the end result will be that, but
24 that's the reason the standard is to the finished machine
25 dimension.

1 MR. GUBERMAN: Okay.

2 MR. COOK: Yes, it's B-16.5.

3 MR. GUBERMAN: Alright, thank you. That's all
4 my questions for now.

5 MR. ANDERSON: Okay, thank you, Mr. Guberman.
6 Now we'll swing to the other end of the table here and Mr.
7 Corkran, our supervisor investigator has the microphone.

8 MR. CORKRAN: Thank you very much and thank you
9 very much to the panel for your presence here today. As has
10 been mentioned, we sincerely appreciate it, not the least of
11 which with all the troubles and tries that you're having in
12 Houston at this point in time.

13 I had a couple of questions, one, starting with
14 the first page of the petition. Can you provide additional
15 information about the other Petitioner, Core Pipe Products,
16 please?

17 MR. PICKARD: Sure. Just for clarification,
18 what type of information would be most helpful to the
19 Commission?

20 MR. CORKRAN: What is their business practice?
21 What is their business process? How would you characterize
22 their position within the industry?

23 MR. PICKARD: Sure. We'll be happy to include
24 that in our post-conference brief.

25 MR. CORKRAN: Are you at all familiar with Core

1 Pipe Products? I mean is this -- in how they operate and
2 where they move in the market?

3 MR. PICKARD: Certainly, they're a member of the
4 Petitioning Coalition and a client of the law firm. I'm
5 sorry. Just to clarify, Mr. Corkran, are you looking for
6 just kind of a general description currently of --

7 MR. CORKRAN: Well, you mentioned that the
8 industry was divided up into integrated producers,
9 converters. I think those were the two main categories that
10 you were focusing on and I wasn't sure which or how would
11 you describe their participation in the marketplace?

12 MR. PICKARD: So I think it's public knowledge
13 that they are a converter finishing operation and it's also
14 public information that they are supportive of the case. I
15 think the question that you're perhaps tactfully trying to
16 get to is whether they should be deemed a U.S. producer or
17 how they can fit into the U.S. industry. So I think they
18 could be deemed -- and maybe I could clarify this a little
19 bit better -- as a U.S. producer under two different
20 theories.

21 One, to the extent that the Commission finds
22 that under a more traditional analysis that regardless of
23 how the scope is drafted that sufficient added value and
24 production-related operations that they would be deemed a
25 U.S. producer that way or to the contrary, to the extent

1 that the Commission recognizes that converters who are using
2 Chinese or Indian flanges to product, if they accept our
3 theory that doesn't amount to U.S. production operations.

4 And without getting into any of the specifics of
5 Core Pipe's operations, I think that you could draw a
6 principle line saying that is distinct from a converter who
7 would be using non-subject products and converting it
8 because those further finished products, under our scope,
9 wouldn't be subject merchandise, but we can tease that out
10 considerably more in our post-conference brief.

11 MR. CORKRAN: Okay. No, thank you, that was
12 helpful. I just wanted to take advantage of the panel's
13 experience to get some more information on the record on
14 Core Pipe products.

15 I had a question about information that appears
16 in the petition at Exhibit I-8 as well. In terms of what's
17 going on in the marketplace, one of the things that I found
18 striking was a substantial increase in imports of stainless
19 steel forgings and I'm not talking about those coming from
20 the subject countries, which actually declined. I'm talking
21 about the ones coming from the "All Other Sources." There's
22 a noticeable increase between 2014 and 2016 and the average
23 unit values that you were referencing earlier dropped to
24 levels noticeably below those for China and India in 2016
25 and 2017. So in terms of the forgings that are in the

1 marketplace, what is going on with those?

2 MR. PICKARD: Sure. Is your inquiry tied to
3 directly to the increase in semi-finished -- I'm sorry,
4 unfinished forgings in regard to the Philippines or are you
5 talking about all non-subject combined?

6 MR. CORKRAN: That's a good question because I
7 was actually looking at a presentation that combined all
8 other sources, so I'm not sure if it's from the Philippines.

9 MR. PICKARD: Sure. Okay, so there's a distinct
10 Philippines issue of which I think we teed up earlier which
11 looks like or at least there's reason to believe that is
12 transshipped Chinese product. We'll go take a look at the
13 disaggregated, non-subject forging data and we'll get you a
14 further analysis on that.

15 MR. CORKRAN: Okay, excellent. Thank you very
16 much. One thing I wanted to follow up on as well, I thought
17 I heard this, but I wanted to make sure it was the case.
18 Approved Manufacturer List, those include converters, right,
19 and not just forgers?

20 MR. MAASS: That is correct.

21 MR. CORKRAN: Thank you. This is a question
22 that comes over from other cases that we've had in stainless
23 steel, but I'm not quite sure whether or not it relates to
24 flanges. When you price, do you utilize surcharges that
25 reflect shifts in stainless steel costs or alloy costs?

1 MR. MAASS: No, we do not.

2 MR. CORKRAN: Okay. Related and this question
3 was raised a little bit earlier. I wanted to refine it just
4 a little bit. In one of the presentations, you identified
5 grades 304 and 316 and 304-L and 316 as principal grades.
6 One of the things that we look at in our staff report is we
7 look at primary raw materials. Would you say these 300
8 grades are more prevalent than, say, the 400 grades of
9 stainless steel?

10 MR. MAASS: If for the in-scope merchandise the
11 volume of 300 series stainless steel flanges would, by far,
12 outweigh any other, yes.

13 MR. CORKRAN: Okay, thank you. Sometimes that
14 has an affect because we're looking at not only those
15 prices, but how not just nickel, but chrome maybe moving or
16 things like that. Thank you. I appreciate that
17 clarification.

18 This is a question for Maass. How do you align
19 your company's forging capacity with its finishing capacity?
20 Do you have a forging capacity that largely matches your
21 finishing capacity? Do you have excess forging capacity,
22 excess finishing capacity? How do you align those
23 components of your business?

24 MR. MAASS: We have vast excess forging capacity
25 over machining capacity.

1 MR. CORKRAN: Okay. But your finishing capacity
2 is more fully utilized?

3 MR. MAASS: I'd be more than glad to disclose
4 that during our brief.

5 MR. CORKRAN: Okay. I'd like to follow up on
6 one of the questions that Mr. Enck had when he alluded to
7 some of the import data that we're looking at, but more
8 broadly, can you describe what the role of NAFTA is and the
9 broader North American market? Because when you look at
10 imports from countries, other than those that are subject to
11 this investigation, Mexico and Canada do sort of stand out
12 as other sources of supply, so how does the North American
13 market operate?

14 MR. MAASS: I believe it's public knowledge that
15 we also operate a McKelador facility in Mexico which would
16 fall under the NAFTA, so the import of flanges from Mexico
17 would, to a large extent, account for the production of our
18 facility in Mexico. It's my understanding that there's also
19 a considerable amount of product coming in from Canada.
20 Here I am not aware of a forging -- flange forging
21 manufacturer in Canada, so we are not sure on where that
22 product originates from or where it's forged at and if it's
23 machined in Canada or it is transshipped in Canada. We
24 don't know.

25 MR. CORKRAN: Okay, thank you very much.

1 Dr. Kaplan, this is a question for you. We've
2 had some other cases where the product that we're looking at
3 is one that is utilized in the oil and gas sector, but more
4 for refinery-type or process-type operations like you were
5 describing and one of the challenges that we've had is
6 picking out good demand driver data. Are you aware of any
7 published data that tracks, say, refinery activity or that
8 would be more closely associated with the use of this
9 product?

10 DR. KAPLAN: In my presentation, I presented
11 worldwide data for refinery capital expenditures. Data like
12 that is available for the states, but it's proprietary data.
13 So if the Commission wants to make an investment, I'm sure
14 that someone will be more than happy to sell them that data.
15 We did a search as well and found some of that, but I think
16 in the post-hearing we'll try to answer the earlier question
17 about rough shares into which segment it goes into.

18 It's our understanding now that it is refinery
19 and petro-chemicals are high on the list, but given the
20 location of the facilities, the approval lists is commonly
21 what's called the Exxon list and that the Commission found
22 in the last investigation that there is, you know with some
23 lag, affects from the oil and gas prices, which I think is
24 consistent with world refinery expenditures. So we'll try
25 to add more information to that, but I think you have some

1 of it in that 1-IA table.

2 MR. CORKRAN: I believe the last question I have
3 was touched on earlier. In looking at import trends, one of
4 the issues that was raised was the affect of the Exclusion
5 Order. Will that have a continuing affect on imports or was
6 that primarily something that occurred at a particular point
7 in time during our data collection period?

8 MR. PICKARD: Why don't I start it, and then to
9 the extent that you want to jump in, feel free. So there's
10 reason to believe that the 337 investigation may have
11 distorted some of the three-year trend data, specifically,
12 that it looks like during the POI there may have been an
13 effort by Varage to push in imports on an accelerated basis.
14 We know in 2017 you've got an absolute increase from India.
15 But more than that -- and we can get into it a little bit
16 here or if you prefer we can do in the post-conference
17 brief. It's public information that Varage owns Bebetz and
18 we're going to put in some articles and other
19 publicly-available information in regard to both the
20 increases in capacity for stainless steel and for flanges by
21 Varage and Bebetz and some other probably more business
22 confidential information supporting the proposition that a
23 lot of those Varage shipments are now being done by Bebetz.
24 So I suppose more specifically to your question
25 is do we think that the Exclusion Order has shut down

1 shipments from the United States of stainless steel flanges
2 from Varage and its variety of affiliated companies? No.
3 And do we think that those shipments will continue and
4 accelerate in 2017 and beyond in the absence of an order?
5 Absolutely yes. Would you prefer to do it in a
6 post-conference or do you want to --

7 MR. MAASS: It's our understanding, based on our
8 information from our customers, that the customers were at
9 the time of the -- when the Exclusion Order was issued and
10 the customer did not receive their product in a timely
11 fashion, they were pushing in one-year supply of product
12 into the U.S. -- and this is all public knowledge -- within
13 a six or eight-week period. So they redirected all
14 production resources to just an avalanche. Shipped
15 everything they could possibly make into the U.S., swamping
16 the market. Then the Exclusion Order happened, and based on
17 the information we received from our customers, the product
18 that was not received, open order items, the customer was
19 allowed to cancel the order with Varage and reissue the same
20 order under the same conditions for the same prices for the
21 same items with the same incoterms and deliveries to Bebetz.

22 In fact, it's our understanding that the sales
23 manager that used to work for Varage during the time of the
24 Exclusion Order just changed saddles and moved over to
25 Bebetz or changed horse, you could say, and they just

1 rebranded is really all they did. They took the Varage
2 brand applied it to the Bebetz brand. Both of them are
3 approved, which really doesn't make a difference, because
4 it's a commodity and they just continued business as usual,
5 as it was in the past. Nothing has really changed. The
6 only thing that did change in 2016 that we had this huge
7 surge of product coming in before the Exclusion Order took
8 place. Everything else kind of has settled back down and
9 what used to be Varage now is Bebetz and the customers
10 perceive it in that fashion also.

11 DR. KAPLAN: This is Seth Kaplan. I'm going to
12 kind of bring a graph of the Indian data on a monthly basis
13 and kind of annotate it. And I think what you do see is a
14 surge for several months, but then a decline to a lower
15 level, which kind of explains market share a bit in 2016,
16 and then a tip up back in 2017.

17 So you can actually see the volumes and how much
18 they go up and down on a monthly basis. And I think that
19 Mr. Pickard is right that there was disruption, and you can
20 see it in the data. And I think our discussion of the
21 volumes and how much came in and how disruption there was is
22 better analyzed through an examination of that monthly data.

23 And I think it's consistent with the notion that
24 the market was disrupted and consistent with decline in
25 market share and sales, and then a return to levels that you

1 see in the interim data before you.

2 MR. CORKRAN: Thank you very much, and thank you
3 to the panel. With that, I have no further questions.

4 MR. ANDERSON: Thank you, Mr. Corkran. I'm going
5 to scan my colleagues here to see if they have any follow-up
6 questions. Mr. Enck?

7 MR. ENCK: Okay, the Maass website mentions that
8 Maass Ring and Forge was founded in 2014. Does that factory
9 make stainless steel flanges?

10 MR. MAASS: Alex Maass. Yes, it does. And we
11 were going to include the production makeup, you know, who
12 does what, in our brief.

13 MR. ENCK: Okay. And could you tell me anything
14 about the investment decision at the time to invest in that
15 new facility?

16 MR. MAASS: We will be very glad to do that in the
17 brief.

18 MR. ENCK: Okay. Thank you. That's all I have.

19 MR. ANDERSON: Any follow-up questions?

20 (No response.)

21 MR. ANDERSON: I want to thank you very much for
22 your responsiveness and indulging in our questions. It's
23 been very helpful, and my colleagues have asked some
24 excellent questions. I just have a couple of real quick
25 ones.

1 Thank you all for bringing the products. That's
2 very helpful. Seeing is believing, we like to say, so it's
3 very helpful. And I just want to echo also that we're glad
4 that you're here today, and we know of the trying
5 circumstances in the Houston area, so I guess it's good that
6 you're west and not in downtown Houston.

7 But just to follow up on that, can you say
8 anything about how that catastrophe in that area, given that
9 oil and gas is a large part of the market for these
10 products, is there any impact from that catastrophe there on
11 the market itself, on any of your competitors, or on the
12 subject imports? I don't know if they come in through the
13 Port of Houston, or through New Orleans, but is there
14 anything you could round out that initial question Ms. Von
15 Kessler asked about the impact of Hurricane Harvey?

16 MR. MAASS: Alex Maass. The Hurricane Harvey, a
17 very unfortunate situation. The impacts of Hurricane Harvey
18 are going to be--It's a little early I think to figure all
19 that out. It is our understanding that the Port of Houston
20 has been backed up. There has been no damage due to
21 flooding, because we really didn't receive severe flooding
22 in Houston.

23 We received severe rains which all drain into the
24 Galveston Bay. So the delay on the Port is solely due to
25 the hurricane that was offshore and they didn't want to

1 bring vessels in during the high wind.

2 We are not aware of any of our competitors being
3 in distress by Harvey. Neither are we, from a facility
4 point of view. We've had several employees that got flooded
5 and were not able to dedicate all their time to work for the
6 first couple of days after the storm.

7 And as far as your question to customers, end
8 users' facilities being impacted, I probably know as much as
9 you do reading the newspaper. There doesn't seem to be that
10 big of a impact, is what my understanding is. And a lot of
11 the facilities and pipelines are restarting, things like
12 that.

13 MR. ANDERSON: Okay. Thank you. That's very
14 helpful; a very good clarification.

15 A couple of other quick questions. Can you
16 either now or in your posthearing brief comment on your
17 projected demand for the product in the rest of 2017 and
18 2018?

19 MR. MAASS: Alex Maass. We will be delighted to
20 do so during the brief.

21 MR. ANDERSON: Okay. And then another question on
22 demand in India and China. Is there anything you could say
23 now or in your posthearing brief about demand for this
24 product in India and China during the period of
25 investigation?

1 MR. MAASS: To the best of our knowledge we will
2 do so in our brief.

3 MR. ANDERSON: Okay, great. And then what, if
4 any, is the relevance of the fact that there is no
5 opposition here today or another party coming to testify
6 against the Petition? Is there any relevance? And how
7 should the Commission look at that in this preliminary phase
8 investigation?

9 MR. PICKARD: It's a good question, right? The
10 ITC, to the best of my knowledge, has always emphasized that
11 it's not a due process proceeding as much as its own
12 investigation. That being said, I think there are certain
13 kind of notions of fairness that would seem to imply that
14 the lack of opposition should be counted in favor of the
15 domestic industry.

16 As a purely legal matter, I'd actually like to
17 give that some thought and share our thoughts in our
18 postconference brief.

19 DR. KAPLAN: I'll certainly say that none of our
20 arguments have been rebutted. And to the extent that you--
21 and you always have taken testimony as an important part of
22 the investigation, the issues that we have laid out have not
23 been joined. They've been conceded, as sworn testimony
24 here. So, you know, you do conduct your own investigation.
25 You do have questionnaire responses, as well, but you had

1 questions about them today. Questions about
2 interpretation. Questions about the meaning about how the
3 market works. And, you know, in this case and in a lot of
4 cases where the markets and the products are narrowly
5 defined, there are not great third sources.

6 I mean even where the markets are much broader,
7 as Mr. Corkran mentioned earlier, the Commission struggles
8 with getting refinery data. And that's not a small
9 industry. The testimony here is important and pertinent,
10 and many times the only evidence you have on the record.

11 So to the extent it is, the fact that it is
12 uncontested, is meaningful for the record. And we would be
13 happy to, you know, give you many more information [sic],
14 and we will both bring our knowledge of the case as well as
15 our interpretation and analysis of the confidential record
16 and the questionnaires in our postconference brief.

17 MR. PICKARD: Can I make just one quick
18 observation, and we'll flesh it out more in our
19 postconference brief, but the case law is clear that the
20 Commission is the trier of fact. It is within the
21 Commission's discretion as far as the probative value that
22 it wishes to assign to various testimony or other pieces of
23 evidence.

24 To the extent that you have sworn testimony from
25 one side, and potentially a postconference brief put in in

1 opposition, which we don't know if that's going to occur or
2 not, it would certainly be within the Commission's
3 discretion to weigh sworn testimony more heavily, or provide
4 it with more probative value, than assertions made in a
5 brief that weren't done under oath.

6 So that's clear. And I think in light of--and
7 this we'll expand more on in the brief--the American Lamb
8 Standard requires that there's only a reasonable indication
9 of material injury that needs to be shown.

10 Here, with kind of a prima facie case of at least
11 in the current period an absolute increase, a market share
12 increase, the under-selling and this type of profitability,
13 in the absence of any testimony to the contrary I would just
14 submit that that would probably be pretty compelling for any
15 Commission.

16 MR. ANDERSON: Okay, thank you very much. It's a
17 fascinating question and I look forward to--we look forward
18 to any more elaboration in your postconference brief.

19 And my last question is, there was a lot of
20 testimony about what has not changed since the 1994
21 determination. Mr. Kaplan, in particular, you mentioned
22 several things as far as supporting your head-to-head
23 competition, inelastic demand, et cetera.

24 So, conversely, what has changed in 20 years with
25 either the product or the market? You're testifying here

1 that a lot of things have not changed since the previous
2 case, and that's been roughly 20 years. So what has changed
3 either with the product or the market, et cetera?

4 DR. KAPLAN: Seth Kaplan. I'd like to elaborate
5 more in the posthearing brief, but as I discussed earlier
6 about kind of the continuous plight of this industry, in
7 some cases you see, you know, a very high surge in imports
8 precipitating the filing of the case, and injury, and in one
9 period or something to that effect. The industry has been
10 contracting, and it's not been for lack of demand over that
11 period, due to a constant battering from low-priced imports.

12 And we are here today to call them out. They've
13 been called out before, but that's neither here nor there
14 for this investigation, other than the fact that they were
15 there and now they're being called out.

16 You can look at the prices. The under-selling is
17 consistent through the three years. Damage to the
18 profitability is consistent. Mr. Pickard has spoken to
19 firms shuttering their forging capabilities and switching to
20 conversion.

21 So we will put that forward over time and any
22 other issues that we think are responsive to your question.
23 So, good question, and we'll answer it for you.

24 MR. PICKARD: This is Dan Pickard. There's one
25 very obvious change that's happened since 1994 and that I

1 think all sides would agree is true. The increase in
2 foreign capacity in China and India, it's not a shocker to
3 anybody at the Commission as far as the increase in Chinese
4 steel capacity across the board. And, similarly, there's a
5 plethora of evidence in regard to the increase in capacity
6 in India, and specifically tied to stainless steel flange
7 capacity.

8 There are public statements by Verrage since 1994
9 as far as their dedication in regard to becoming the largest
10 stainless steel producer in the world. Their acquisition of
11 Bebest. The fact that they've publicly stated that they
12 want to be the supermarket of stainless steel throughout the
13 world.

14 And we can put on additional evidence, but when
15 you asked what's changed since 1994, incontrovertible
16 evidence in regard to increases in subject capacity.

17 MR. ANDERSON: Okay, that's very helpful. Thank
18 you for that detail and clarification.

19 With that, on behalf of staff I want to thank you
20 very much for your responses to our questions, and it's been
21 very helpful to have that dialogue.

22 I think we'll just move right into closing
23 arguments. This is kind of unusual. We're not used to
24 taking a break, unless you need a break, and we can move
25 right into closing arguments.

1 CLOSING REMARKS BY DANIEL PICKARD

2 MR. PICKARD: And I think we can move right into
3 saying thank you, and adjourning. We very much appreciate
4 everyone's time. I think our position is pretty
5 straightforward.

6 Not to put too fine a point on things, there's
7 been some discussion in regard to the trends analysis, the
8 but-for analysis. I want to make perfectly clear that it is
9 our position that under the most conservative traditional
10 ITC approach in regard to evaluating the significance of the
11 imports, that an affirmative determination is warranted.
12 That under well-established ITC precedent, with the
13 half-year 2017 data what we're seeing is that absolute and
14 relative increase in imports.

15 But we do plan on briefing more thoroughly maybe
16 additional ways of looking at the absolute volume of imports
17 and how that contributes to injury. But that's in support
18 of and in the alternative of our main arguments.

19 Similarly, our arguments in regard to
20 under-selling and price depression, are kind of classic
21 textbook arguments, as are our arguments in regard to
22 adverse impact and the threat of imports.

23 So again, I want to say thank you. We will be
24 happy to answer all of the questions that were raised, and
25 to the extent that there are additional questions, again

1 obviously we will be happy to answer them.

2 Thanks again for your time.

3 MR. ANDERSON: Okay, thank you. And that was
4 definitely less than five minutes. So with that, again on
5 behalf of staff I want to thank you for being here today to
6 help us understand the product, the market, the industry.
7 It has been very helpful.

8 Just to mention a couple of key dates in the
9 investigations for the record: The deadline for submission
10 of corrections to the transcript and submission of
11 postconference briefs is next Monday, September 11th. If
12 briefs contain proprietary information, a public version is
13 due on Tuesday, September 12th. And the Commission is
14 tentatively scheduled to vote on these investigations for
15 Friday, September 29th. And it will report its
16 determinations to the Secretary of the Department of
17 Commerce on Monday, October 2nd. Commissioners' opinions
18 will be issued on Tuesday, October 10th.

19 And with that, I thank you again very much and
20 this conference is adjourned.

21 (Whereupon, at 11:59 a.m., Wednesday, September
22 6, 2017, the hearing was adjourned.)

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25

CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Stainless Steel Flanges from China and India

INVESTIGATION NOS.: 701-TA-585-586 and 731-TA-1383-1384

HEARING DATE: 9-6-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

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: 9-6-17

SIGNED: Mark A. Jagan

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