UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:) **Investigation No.:**
TAPERED ROLLER BEARINGS FROM KOREA) **731-TA-1380 (PRELIMINARY)**

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UNITED STATES OF AMERICA

BEFORE THE

INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:	)	Investigation No.:
TAPERED ROLLER BEARINGS FROM KOREA	)	731-TA-1380
	)	(PRELIMINARY)

Main Hearing Room (Room 101)
U.S. International Trade
Commission
500 E Street, SW
Washington, DC
Wednesday, July 19, 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.

APPEARANCES:

Staff:

William Bishop, Supervisory Hearings and Information Officer

Sharon Bellamy, Records Management Specialist

Michael Anderson, Director of Investigations

Keysha Martinez, Investigator

Gregory LaRocca, International Trade Analyst

Tana Von Kessler, International Economist

Charles Yost, Accountant/Auditor

Brian Soiset, Attorney/Advisor

Douglas Corkran, Supervisory Investigator

Opening Remarks:

Petitioner (Terence P. Stewart, Stewart and Stewart)

Respondents (Max F. Schutzman, Grunfeld Desiderio Lebowitz Silverman & Klestadt LLP)

In Support of the Imposition of Antidumping Duty Order:

Stewart and Stewart

Washington, DC

on behalf of

The Timken Company

Christopher A. Coughlin, Executive Vice President, Group President, The Timken Company

Philip D. Fracassa, Executive Vice President, Chief Financial Officer, The Timken Company

Brian J. Ruel, Vice President - Americas, The Timken Company

Michael A. Discenza, Vice President and Group Controller, The Timken Company

Brian T. Strunck, General Manager, Sales, Global Commercial Vehicle, The Timken Company

Terence P. Stewart, Elizabeth J. Drake and Philip A. Butler - Of Counsel

In Opposition to the Imposition of Antidumping Duty Order:
Grunfeld Desiderio Lebowitz Silverman & Klestadt LLP
Washington, DC
on behalf of
Schaeffler Korea Corporation
Schaeffler Group U.S.A. (collectively, "Schaeffler")
Harald L. Schuster, Director - Sales, Transmission Applications & Chassis Systems, Schaeffler
Brian Kreifels, Regional Sales Manager - Engineering Sales, Schaeffler
Timothy Shalosky, Accounting Consultant, Schaeffler
Sebastian Brand, Director - Finance Strategy, Process & Infrastructure - Americas, Schaeffler
Robert E. Wick, III, General Counsel - North American Division, Schaeffler
James P. Dougan, Vice President, Economic Consulting Services LLC
Parker Sultzer, Research Assistant, Economic Consulting Services, LLC
Max F. Schutzman, Kavita Mohan, Jordan C. Kahn - Of Counsel

Hogan Lovells US LLP
Washington, DC
on behalf of
Bearing Art Corporation
Iljin USA Corporation
John H. Dix, President, Iljin USA Corporation
Craig A. Lewis - Of Counsel

Non-Party Appearance:
Brinks Gilson & Lione
Washington, DC
on behalf of
Dana Incorporated
Steve Schamp, Senior Purchasing Manager, Dana Incorporated
Lyle Vander Schaaf - Of Counsel

Rebuttal/Closing Remarks:
Petitioner (Elizabeth J. Drake, Stewart and Stewart)
Respondents (Craig A. Lewis, Hogan Lovells US LLP)

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Harald L. Schuster, Director - Sales, Transmission Applications & Chassis Systems, Schaeffler 95

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P R O C E E D I N G S

(9:31 a.m.)

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

MR. ANDERSON: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase anti-dumping duty investigation number 731-TA-1380 concerning taper roller bearings from Korea.

My name is Michael Anderson. I'm the Director of the Office of Investigations. I'll be presiding at this conference. I would like to introduce some of our staff that are on the investigation. To my far right is our supervisor investigator, Mr. Douglas Corkran; our Investigator, Ms. Keysha Martinez; and to my left, my immediate left, Brian Soiset, our Attorney; and our Economist is Tana Von Kessler; our Accountant and Auditor is Charles Yost; and finally, our Industry Analyst is Gregory LaRocca.

I understand that all parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphone. We also ask that you state your name and your affiliation for the benefit of the court reporter during your presentation and also when you're

answering questions.

All witnesses have -- must be sworn in before presenting testimony. Any questions regarding the time allocations should be addressed with the Secretary.

Are there any questions?

Seeing none, Mr. Secretary, are there any preliminary matters?

MR. BISHOP: Mr. Chairman, I would note that all witnesses for today's conference have been sworn in with the exception of Kavita Mohan, who is on the panel in opposition to the imposition of the anti-dumping duty order.

And she will be sworn in upon arrival. There are no other preliminary matters.

CHAIRMAN ANDERSON: Thank you, Mr. Secretary for the clarification. Very well. Let us proceed with opening remarks.

MR. BISHOP: Opening remarks on behalf of petitioner will be given by Terence P. Stewart of Stewart and Stewart.

Mr. Stewart, you have five minutes.

OPENING STATEMENT OF TERENCE P. STEWART

MR. STEWART: Good morning, Mr. Anderson and other members of the Commission staff. I'm Terence Stewart of Stewart and Stewart and we are representing the Timken Company, the petitioner in this case.

Timken Company's founder, Henry Timken, invented the tapered roller bearing in 1898. And the company has been one of the world's largest producers of tapered rolling bearings or TRBs ever since that time.

The petition filed late last month on behalf of the company is on certain TRBs imported from the Republic of Korea that are believed to be dumped at significant dumping margins. The scope of the petition and we believe the Commerce investigation should be initiated today is limited to TRBs with an outside diameter of 8 inches or less. It includes all finished TRBs and finished parts other than cages that are entered separately, but specifically excludes wheel hub units, railroad TRBs, and house TRBs, and any TRBs with an outside diameter of the cup that is larger than 8 inches.

The scope of the petition is different than earlier petitions because the imports of concern to the company and we believe the industry are limited to the smaller size range. Indeed, the vast majority of unmanaged TRB imports from Korea are 0 to 8 in outside diameter. Is it these imports which have increased very rapidly in the 2014, March 2017 time period that are causing material injury to Timken and we believe to the entire domestic industry.

The rapid growth in imports threaten additional

material injury absent relief. Timken submits its domestic like product should be co-extensive with the scope of the petition and the Commerce investigation. We have submitted extensive comments in Timken's questionnaire response addressing the elements examined by the Commission on like product. And we will address the topic at length during our testimony this morning.

We will also comment on whether any domestic producers should be excluded from the domestic industry as part of a post-conference brief, but don't believe based upon public information and private review of questionnaire responses that there will be any reason to exclude any domestic producer.

Imports from Korea of certain TRBs are significant. Such imports increased by more than 52 percent on a value basis and more than 90 percent on a quantity basis between 2014 and 2016, and have increased further by more than 54 percent of this quarter of this year, and on a quantity basis by more than 40 percent.

Timken believes that apparent consumption of certain TRBs in the United States has been flat or declined during the period of investigation, meaning Korean imports are capturing market share.

Imports from Korea and the high volume to 0 to 8 outside diameter size range are highly substitutable with

domestically produced certain TRBs and compete heavily on price. Timken believes that when the ITC staff report is compiled, the record will confirm that imports from Korea have captured market share for domestic producers and from other imports and have under sold domestic producers by significant amounts.

Certainly Timken's domestic shipments are down significantly over the PRI, as are all other imports. And Timken has experienced significant price underselling by Korean products.

Indeed, using Timken as a proxy for the industry as reviewed in the petition and in Timken's questionnaire response, all elements of production shipments, employment, hours, worked wages, capital expenditures, and R and D expenditures for certain TRBs are down during the period of the investigation.

As Timken's witnesses will attest, the company and we believe the industry have experienced aggressive pricing from Korean producers, seen significant underselling by Korean producers at key customers, and both lost sales to Korean producers and reduced prices on particular business in an effort to prevent additional lost sales to Korean product.

The facts in the petition alone we believe and the composite information that will be available to the

staff for its report demonstrate that there is a reasonable indication that the domestic industry is materially injured by reason of subject imports from Korea. Hence, we urge the Commission to render an affirmative preliminary injury determination.

The rapid rate of export growth to the U.S. from Korea during the POI and continuing into this year, the export orientation of the Korean industry, the attractiveness of the U.S. market, 35 percent of Korean exports already come here, the importance of price to purchasing decisions for the type of TRBs being exported, and the flat to declining U.S. demand also support an affirmative preliminary determination of a threat of material injury to the domestic industry. Thank you very much.

MR. BISHOP: Opening remarks on behalf of respondents will be given by Max F. Schutzman of Grunfeld Desiderio Lebowitz Silverman & Klestadt.

Mr. Schutzman, you have five minutes.

OPENING STATEMENT OF MAX F. SCHUTZMAN

MR. SCHUTZMAN: Good morning, Mr. Anderson, members of the Commission staff. For the record, I am Max Schutzman of the law firm of Grunfeld Desiderio here today representing Schaeffler Korea Corporation and Schaeffler Group, USA, Inc.

With this petition, the Commission must contend with the following facts. First, using Timken's estimate in the petition, but without conceding its propriety, total imports from Korea of subject merchandise for 2016, the most of any of the full years of the POI, were 11 percent by volume of total imports. This 11 percent of total imports translates to a significantly lower share, down in the single digits of U.S. sales of Korean origin tapered roller bearings as a percentage of total U.S. consumption. This is well below the market share of imports from China, imports from Japan and from the all other nonsubject sources category. Simply, Korean imports of this minimal magnitude cannot be the basis of any injury finding by the Commission.

Second, we recognize that there are harmonized tariff issues covering the POI due to the changes in categories as of July 1, 2016 in that some of the HTS categories for this product prior to that date are broader than the scope.

Mr. Dougan, in his prepared remarks, will have a suggestion of how we think the Commission should deal with that. However, focusing now on what appears to be the largest HTS category for Korean imports, 8482.20.0040, cup and cone assemblies entered as a set with cup OD 102 millimeters or less. This is one category that has not changed.

We see that the average unit value for Korean imports in 2016 is considerably higher than fairly traded imports from China, from Poland, and from Thailand, three of the five largest in this category with almost double the volume of imports from Korea.

We also see that average unit values for Korean imports are roughly equivalent to those of Japan, another fairly traded country of origin, which is almost the same level of imports as Korea.

This bears directly upon and cuts directly against petitioner's claim that it has demonstrated the required causation between Timken's alleged injury on the one hand, and imports from Korea on the other.

Related to this, likewise on the element of causation and relevant to injury as well are the following excerpts taken from Timken's 2016 annual report.

"2016 was the second consecutive year of soft industrial markets. Notwithstanding, we gained market share in the automotive sector. Sound strategy has yielded solid performance in a down market environment." This was all from Timken's president, Mr. Kyle.

2016 and I quote, "produced solid results even as the company continued to navigate challenging economic conditions amidst an industrial recession." This was from chairman of the board Mr. Timken.

And at page 6 of the annual report, "There has been significant volatility in the capital markets and in the end markets and geographic regions in which we and our customers operate, which has negatively affected our revenues. Our revenue and earnings are impacted by overall levels of industrial production."

And finally at page 25 of the same report, the decline in net sales for the mobile industry segment was primarily driven by a decrease in rail, off highway, aerospace and heavy truck market sectors partially offset by organic growth in the automotive market sector. Hardly ringing pieces of evidence that imports from Korea have been an important cause of reductions in Timken sales and net revenues in 2016.

Although Timken in its petition attempts to link the closure of its Alta Vista plant, that's Alta Vista, Virginia in 2016 to alleged low price imports from Korea, the public record demonstrates otherwise.

Timken closed that plant for strategic reasons unrelated to imports from Korea and transferred Alta Vista product it was interested in retaining to its plant location in Lincolnton, North Carolina, only three hours away.

In their testimony, respondents' witnesses will highlight the business decisions taken by Timken leading to its loss of TRB business over time, why much of that

business has not returned, and why that loss of business was unrelated to import competition from Korea.

Finally, Mr. Dougan in his testimony will discuss the absence of evidence of price suppression or depression on this record, why any increase in Korean imports over the POI is not significant, and cannot be causing any adverse volume effects, and why the record likewise fails to support any evidence of material injury. Thank you.

MR. BISHOP: Would the panel in support of the imposition of the anti-dumping duty order please come forward and be seated?

Mr. Stewart, you have 60 minutes for your direct presentation.

MR. STEWART: Thank you. We will start immediately with testimony from Chris Coughlin. Chris?

STATEMENT OF CHRISTOPHER A. COUGHLIN

MR. COUGHLIN: Okay, good morning. My name is Chris Coughlin. I serve as executive vice president and group president for the Timken Company. I'm responsible for all operational and commercial activities of the Timken's engineered bearings, mechanical power transmissions, and industrial services portfolio. In this capacity, I oversee all operational and commercial aspects of our tapered roller bearings business. I began my career at Timken 33 years ago

and I've been in my current position since 2014.

Timken is a major producer of tapered roller bearings in the United States. Our company's founder Henry Timken invented the tapered roller bearings in 1898. Tapered roller bearings saw a critical problem in a wide range of industries and applications, which is the reduction of friction, which improves productivity and equipment life.

Tapered roller bearings handle two kinds of loads, radio loads imposed by weight and thrust or corner in force loads. This allows the equipment in vehicles on which they're employed to bear weight and handle turning and cornering forces by reducing friction and thereby maximizing the life of the equipment.

TRBs are sold to original equipment manufacturers and aftermarket distributors. We also sell some TRBs to OEMs for use in their service channel to repair their own customer's equipment. Demand for tapered roller bearings is derived from demand in end use markets, including automotive, heavy truck, off road, and industrial.

Since 2014, the U.S. market for tapered roller bearings had been impacted by demand trends in these various markets. While the automotive sector has performed strongly, heavy truck has done less well. And the off road segment has been hard hit by downturns in agriculture and

other industries due to extremely low commodity prices.

Overall, we believe that domestic demand for TRBs that are the subject of this case had been roughly flat since 2014. Despite this fact, imports from Korea of products subject to this petition and we believe Commerce's scope have surged into the U.S. market since 2014 and that surge has continued in 2017.

From 2014 to 2016, we estimate that imports from Korea grew over 90 percent, based on the number of bearing equivalents and rose nearly 53 percent by value.

Between the first quarter of 2016 and the first quarter of 2017, imports from Korea are estimated to have grown by another 40 percent by volume and by nearly 55 percent by value. This remarkable growth is far out of line with imports from other countries, which have either declined, remained flat, or risen much less rapidly.

These imports have also come at the expense of the domestic TRB industry. There are tens of thousands of individual part numbers for TRBs reflecting, the difference -- specific applications for which the bearing is designed.

While TRBs with different sizes, specifications, and part numbers are not interchangeable with one another, TRBs of the same part number produced by different manufacturers are interchangeable.

Major Korean producers like ILJIN and Schaeffler

produce many of the same part numbers that Timken produces and their product is completely substitutable for Timken product within those part numbers.

Korean producers appear to have targeted high volume part numbers in particular. These are parts that have been established and accepted in the market for a number of years already and they provide the perfect entr e for gaining a large foothold in the market at a rapid rate.

It is these imports that our petition focuses on, because these are the TRBs where we have seen the largest increase from Korea. These are TRBs of 0 to 8 inches in diameter, excluding wheel hub units, railroad bearings, and housed units.

The scope of this petition is different from the existing order on TRBs from China, which includes TRBs regardless of size, as well as all types of mounted bearings and parts. While we believe the Commission has correctly defined the domestic like product in the China case as one product co-extensive with the scope, we believe the Commission should define the domestic like product in this case as co-extensive with the scope of this petition, 0 to 8 inch TRBs, excluding wheel hub units, housed, and rail bearings.

In terms of physical differences, out of scope TRBs are either large in diameter or have a housing unlike

in scope TRBs. As my colleague Brian Ruel will testify, in scope and out of scope TRBs also tend to be focused in different end use markets and customer channels, though there is some overlap.

As noted above, there is no interchangeability between TRBs of different sizes and specifications. This is true both among TRBs within the scope and those that are out of scope. Larger TRBs and housed units will tend to be higher priced, due to the added material and manufacturing cost, though this is not uniformly the case.

8 inches in diameter is a natural break point in how we think about our asset configuration for producing different types of TRBs. The vast majority of our 0 to 8 inch TRB product is very high volume part numbers that are produced on continuous lines that are more automated and less labor intensive.

These lines are dedicated exclusively to making TRBs up to 8 inches in diameter. By contrast, TRBs over 8 inches in diameter are typically made in much smaller lot sizes produced step by step instead of on continuous lines.

These products are generally more complex and there is a much greater range of product specification than one sees in 0 to 8 inch range. Production machinery set up to produce 0 to 8 inch TRBs would not produce larger TRBs and vice versa.

As a result, the vast majority of 0 to 8 inch TRBs we make are produced in plants that only produce within that size range, due to the greater efficiency of concentrating the production of such high volume parts and single facilities on continuous dedicated lines.

There is only a very small amount of 0 to 8 inch thrust bearings we make on dedicated equipment and a smaller job lot facility and precision 0 to 8 inch TRBs, which are made in a precision TRB plant.

At one plant, that makes TRBs above and below 8 inches most of the 0 to 8 inch product is made on machinery dedicated under the 8 inch product. We also have a facility that only makes TRBs over 8 inches in diameter.

There are also differences in the process for producing wheel hub units, house units, and rail bearings. We have a plant dedicated exclusively to producing house bearings and that has no production of unhoused bearings. We also have a facility dedicated exclusively to producing and repairing railroad bearings.

While some plants produce wheel hub units as well as unmounted TRBs, the manufacturing steps to produce the wheel hub unit after the TRB is produced take place in separate dedicated cells, incorporate additional materials, and use separate workers.

Timken and its customers view 0 to 8 inch

unhoused TRBs as separate products from out of scope TRBs. Given their different characteristics and end uses, in short, we believe there are sufficient differences for the Commission to define the domestic like product in this case as being a single product co-extensive with the scope of this investigation.

The increase in the volume of these TRBs from Korea has come at the direct expense of the domestic industry. Based on Timken's own data, which we believe will be representative of the industry as a whole, we have seen significant decline in shipment volumes, sales revenue, and production during the same period that imports from Korea have been rising. As a result, we have lost significant market share to Korean imports. Declines in production have also forced us to reduce employment sharply.

In addition, a number of our U.S. plants are now operating at very low capacity utilization. As the Commission is well aware, the tapered rolling bearing industry is highly capital intensive. Low capacity utilization rates in our industry are simply not sustainable and over the long term, the high fixed costs must be spread out over lower and lower volumes.

If we are not able to increase sales and production in the near term, continued loss of market share to Korean imports puts the viability of one or more of our

plants at risk.

The way the Korean imports have been able to increase so rapidly into a basically flat market is through aggressive price undercutting. As my colleague Brian Ruel will testify, price is a very important purchasing factor for our TRB customers. They -- and they often provide feedback regarding competitor prices in the course of sales negotiations.

Korean product undersells our own at very significant margins, making it impossible in many cases for us to meet the Korean price and still make a return. When we are not able to lower our own prices to meet these quotes, we will often lose sales. This is exactly how Korean imports have gained so much market share at Timken's expense over the past few years.

We have made every effort to compete with the flood of Korean imports, taking cost out of our system wherever we can, but Korean prices are so low, that there is no way we can meet them simply by being more efficient or cost effective. We believe Koreans can offer such low prices only because they are engaged in dumping at very significant levels.

Our petition supplemented in response to questions from the Department of Commerce shows tapered roller bearings from Korea being dumped in the U.S. market

at margins as high as 192.5 percent. There is simply no way to compete with such unfair price discrimination.

The only way for us to staunch the loss of sales and market share to these dumped imports is to obtain relief that offsets the dumping that is occurring. That is why our company has filed this petition.

If relief is not provided, imports from Korea threaten further material injury in the imminent future. Korea's largest bearing producer, ILJIN, has already gained wide acceptance in the market and received supplier awards from FCA, GM, and Ford in the 2014 to 2016 time frame.

Schaeffler, another major Korean producer, is a well-known multinational with well-established client relationships. The Korean industry is highly export oriented and increased its global exports of all TRBs by nearly 20 percent from 2014 to 2016.

The U.S. with its large market has been the primary target for the Korean industry. The U.S. was Korea's top export market in 2016, accounting for 35 percent of total exports. And the rate of growth in exports to the U.S. has been even higher than the growth in exports to the rest of the world.

Moreover, while automotive builds appear to be slowing in the U.S. at the moment, overall demand trends in the U.S. are likely to be more favorable than in Korea for

the imminent future.

The domestic industry will suffer additional injury from the rapidly growing volume of dumped imports from Korea is relief is not provided. Due to the loss of shipments and the resulting reduced production over the past few years, Timken is already operating at unsustainably low rates of capacity utilization.

Further loss in production puts a number of our plants and the jobs they support at risk. For all of these reasons, we respectfully request that the Commission make an affirmative preliminary determination. I look forward to any questions you may have. Thank you.

STATEMENT OF PHILIP D. FRACASSA

MR. FRACASSA: Good morning. My name is Phillip Fracassa and I serve as Executive Vice President and Chief Financial Officer of the Timken Company. Among other responsibilities I lead the Timken Finance Organization including external reporting, treasury, tax, financial planning and analysis, internal audit, risk management and investor relations.

In this capacity, I oversee all financial and investment decisions for our tapered roller bearings business. I began my career at Timken almost 12 years ago and I have been in my current position since 2014. As part of my responsibilities, I have approval authority over

nearly all capital expenditures on our TRB operations in the United States.

When I receive a proposal for a new Cap X project in one of our plants I review the proposal, its cost, the current operations of the plant in the projected return of the proposed investment. As a company we established a minimum rate of return on invested capital at any approved project is expected to generate. This hurdle rate if you will is based on the current cost of capital with an increase built in to account for the inherent uncertainty of any new investment project. If a project does not exceed our internal hurdle rate it will not be approved.

As my colleague Chris Coughlin testified, we have suffered a serious decline in shipments, sales revenue and capacity utilization in our U.S. plants producing 0-8" unhoused TRBs due to competition with rising volumes of low-priced imports from Korea. As a result, we are not currently meeting our cost of capital in these products, much less achieving levels that would justify new investments.

Far from proposing or approving new projects, we have been forced to sharply curtail our capital investment in these plants since 2014. What minimal capital expenditures we have made are primarily focused on maintenance and certain targeted productivity improvement

initiatives to reduce costs. None of these investments have been to increase capacity or upgrade production capabilities.

In fact, our capital expenditures have been so low at that plants that they are not even keeping pace with depreciation. This downward spiral of disinvestment is not sustainable over the long-term. It can only be stopped if we are able to discipline Korean imports, regain sales and market share and improve capacity utilization and performance in our affected plants.

As CFO, I also oversee approval for research and development expenditures at Timken. We target our research and development budget on products that can earn the highest returns. Given the challenges we face in 0-8 inch unhoused TRBs it has been difficult to justify new R and D projects in this segment. Instead, like our capital expenditures, our research and development expenditures in this area have been cut sharply since 2014.

The low rates of capacity utilization we are currently forced to operate at due to the loss of sales volume to Korean imports is not sustainable. Low capacity utilization is a vicious cycle in a capital intensive industry like tapered roller bearings. It leads to a lot of insufficiencies in the plant and higher unit overhead costs. We have tried to keep this part of the business

viable by cutting other costs including by reducing head count, focusing intensely on supply chain savings and cutting general and administrative expenses.

But these measures can only go so far. Ultimately if the rate of capacity utilization falls too low the company has to contemplate consolidating production or closing a plant. If imports from Korea continue at their current pace, I'm concerned we will need to seriously consider those options for one or more of our affected plants.

While some of our end-use markets for TRBs have faced difficulties in the past few years. We have faced a significant challenge in this part of the business from low-priced Korean imports. Once of my areas of responsibility is to review requests from the Timken sales force to change pricing on TRBs in response to customer feedback about competitor prices. While we must remain competitive in the market, we also have to ensure that our prices allow us to cover costs and generate a reasonable return in margin.

We review every opportunity to determine if we can reduce prices and still produce the product at a sustainable return. Where prices are too low to permit production in the U.S., the company will consider whether one of Timken's offshore facilities may have a lower cost

structure on a given part and whether to source from that plant to meet competition and prevent the loss of business.

In many cases we have been unable to authorize the requested price production for products produced at our U.S. plants. In some of those cases we've had to rely on a sister plant from outside the United States to meet the lower price point. In other cases we have lost the business altogether. In both cases the results have been a loss of sales in our U.S. plants and declining U.S. production.

As I have reviewed these requests in recent years I have been made aware of increasing price pressure from Korea and the loss of business to Korean competitors in particular. If relief is not imposed there will be no way for Timken to meet Korean prices while operating sustainably. This will lead to further losses in sales and production, further reduction in capacity utilization and further disinvestment in our plants in the United States.

We hope the Commission will make an affirmative preliminary determination to prevent this from happening. Thank you.

STATEMENT OF BRIAN J. RUEL

MR. RUEL: Good morning. My name is Brian Ruel and I'm the Vice President for the Americas at the Timken Company. I oversee all aspects of contacts in the Americas including sales, application engineering and service engineering.

Among my responsibilities are customer relationships for our tapered roller bearing sales in the United States. I am responsible for sales to both OEM market and the aftermarket and to customers in both the automotive and industrial sectors. I have been in the bearing industry for 33 years, with Timken for 14 years and in my current role since the beginning of last year.

Before discussing the impact of imports from Korea have had on the U.S. Market I wanted to address some of the domestic like product issues that Chris Coughlin mentioned in his testimony. We define our supply chain in the sales markets by outer diameter and 8 inches is a common cutoff point for Timken and the industry as a whole. TRBs up to 8 inches in diameter are sold in very high volumes and principally to OEMs. All or virtually all the TRBs sold to the automotive and heavy industry are 8 inches in diameter or under and these are primary end-use markets for the 0-8 inch TRBs. Over 8 inch TRBs are not present in automotive or heavy truck segment. There is a significant use of 0-8 inch TRBs in off-road equipment such as agricultural equipment although over 8 inch TRBs can be found in that segment as well.

There is also some demand for 0-8 inch TRBs in the industrial segment, a segment which there are large volumes of over 8 inch TRBs. Certain segments, such as wind

energy, large mining equipment and the cement industries use over 8 inch TRBs for nearly all of their major uses.

In terms of channels of distribution, all TRBs sold to automotive and heavy truck OEMs as well as the automotive aftermarket are 8 inches and under in diameter. Wheel hub units are principally sold in these channels as well. Other than the OEM market over 8 inch TRBs are sold in the industrial aftermarket rather than in the automotive aftermarket. Housed TRBs are used exclusively in industrial application.

Rail bearings have their own channel to rail OEs into the repair and replacement market for rail. Neither housed TRBs nor rail TRBs are present in the automotive or heavy truck segments. We support the Commission's definition of the domestic like product in the case of TRBs from China. The scope of that case includes all TRBs regardless of diameter or housing. In the record they are supporting a single product coextensive with the scope.

However we believe the narrower scope in this investigation merits a narrower definition of the domestic like product. This conclusion is supported by some of the differences we have identified in some of the physical characteristic, end-uses, channels, manufacturing facilities, producer and consumer perceptions and price. We do not believe these differences are so stark as to merit

finding separate like products within the broader scope of the China case but we do think these differences are sufficient to limit the domestic like product to the narrower scope in this case.

This will allow the Commission to focus on the actual imports of concern from Korea and their impact on the Domestic Industry producing the same products. We encounter competition with these Korean imports in various ways. First, when we bid for opportunities for new OEM applications our customers are also receiving bids from our Korean competitors.

Our customers give us feedback on the competing bids they have received and we make every effort to meet the required technical specification at a competitive price. As Phil Fracassa testified this also requires us to evaluate where we can produce a part number and our supply chain costs to determine what price level is required to make a reasonable return. Unfortunately, prices from Korean competitors are so low that we have lost numerous new bids in recent years where we cannot reach competitive price levels sourcing from our U.S. operations. Those plants have lost important new sales opportunities.

Second, Korean product is also offered to OEM accounts when existing contracts are up for renewal. Based on prices, OEMs are being offered on new applications they

typically seek additional offers for renewal contracts. The Korean prices effectively set a new lower bar for those bidding on the contract. Just like with new applications, if we cannot reduce prices for existing items we risk losing the contract renewal.

Anywhere from 30-40 percent of our long-term contracts are up for renewal in any given year. The loss of this renewal volume results in more lost sales for the company. Since 2014, contracts at all our major OEM customers have been up for renewal at least once.

Third, a number of our contracts have resourcing clauses that the customer can resort to even while the contract is still in force. As information regarding low prices for Korean imports ripples through the market the customer can demand either we meet those prices or we resource the volume to our Korean competitor. This is yet another way that aggressive pricing undercutting by Korean products has eroded our sales line since 2014.

It is the price point that our customers demand that determines whether we will be able to supply from our U.S. plants or at all. Some larger automotive tier suppliers, for example, have pressured us to meet low TRB prices in the market in recent years, often prices for Korean producers. It would be preferable to supply those customers from our U.S. plants from a logistics and supply

chain risk point of view. We certainly have the capacity and technical ability to supply them from our U.S. plants but we cannot afford to make sales that do not afford a reasonable return.

In some cases we are able to source these products at the required price point from our sister plants overseas. In other cases we cannot meet the price point at all. Either way, our U.S. plants suffer when the prices customers demand fall so low that there is no way to supply them with U.S. product in a financially viable manner.

In addition to significant pricing problems due to Korean competition in OEM markets, imports from Korea are also present in the distribution channels posing another challenge to Timken. Faced with deep underselling by Korean imports across an array of accounts we try to distinguish Timken product based on engineering and quality. But in the high volume applications that Korean producers have been targeting their product performs comparably to ours.

When they can produce the same part numbers to the same basic specifications at such a lower price, many of our customers will opt for the Korean product. Price is a very important factor in the market for TRBS and the customers cannot ignore such low prices. The competition with Korean imports has only increased since 2014 as imports have risen dramatically. It is becoming more and more

frequent for us to lose business to Korean competitors and price competition has only intensified.

If relief is not imposed I am convinced they will continue to ramp up exports to the United States in the imminent future. They will not hesitate to continue deeply undercutting prices in order to seize market share from Domestic Producers like Timken. We hope a preliminary affirmative determination will prevent them from doing so. This will allow us to compete in a market no longer distorted by rising volumes of dumped Korean imports. I'm happy to take any questions you might have. Thank you.

STATEMENT OF ELIZABETH J. DRAKE

MS. DRAKE: Good morning. I'm Elizabeth Drake from Stewart and Stewart here on behalf of the Petitioner. I would like to go through a short PowerPoint presentation covering some of the legal factors that the Commission will be considering in its preliminary determination.

First, I would like to review the scope of the investigation then walk through the domestic like product factors that the Commission examines and identify some of the relative conditions of competition in the U.S. Market for TRBs. Then we will turn to the volume of Subject Imports, the adverse price effects of Subject Imports, the material injury that has been caused by imports from Korea and the threat of further material injury if relief is not

provided.

Turning to the scope, the scope of this investigation is certain tapered roller bearings, limited TRBs of 0-8 inches and nominal outer diameter. It includes sets, cups, cone assemblies and finished parts but it does not include TRBs that are over 8 inches in diameter, does not include wheel hub units, housed units or railroad bearings. It does not include any unfinished parts and it does not include cages entering separately whether they are finished or unfinished.

This slide has examples of TRBs that are included in the scope. At the bottom left you will see an example of a thrust bearing. At the top left you will see a cone assembly and a cup somewhat separated. On the top right we have a cone assembly and a cup with a cutaway identifying the individual parts of the set as assembled and at the bottom right is a double row TRB.

The next slide shows some examples of TRBs that are not included in the scope. At the top left is a house bearing that is used in a lot of industrial applications. In the middle is a portion of a cage or retainer and at the top right is a wheel hub unit, at the bottom right is obviously much larger than 8-inch in diameter tapered roller bearing. The bottom left is a rail bearing or package bearing.

Turning to the domestic like product, the Petitioner believes the domestic like product in this case should be defined as a single like product coextensive with the scope and should not be expanded to include out of scope items. We know that Commission Staff has collected information both on in scope TRBs and out of scope TRBs and we want to focus on some of the differences between on the one hand in scope TRBs and over 8 inch diameter TRBs and on the other hand differences between in scope TRBS and the excluded wheel hub units -- rail TRBs and housed units.

Looking first at physical characteristics and end-uses obviously there is a clear physical difference between 8 inch and under diameter TRBs and over 8 inch diameter TRBs and their physical differences between the un-housed and the housed TRBs in terms of typically adding materials as just the housing or the hub and sometimes adding additional items such as bolts or sensors and wheel hub units.

These physical characteristics are driven by the different end-uses for these different TRBs. As Mr. Ruel testified the majority of in scope TRBs are used in the automotive and heavy truck segments and in fact there are no over 8-inch diameter TRBs that are dedicated to automotive use or heavy truck use. Instead, most of the over 8-inch diameter TRBs are focused on industrial applications such as

in a steel mill or another industrial application in automotive or heavy truck.

There is some overlap between 8-inch and under and over 8-inch in certain end uses such as off-road, agriculture type equipment but the vast majority again of the in scope TRBs are automotive and heavy truck where there are no over 8 inch TRBs.

In terms of end-uses for the wheel hub units, obviously those are also used in automotive and truck but rail is its own segment where there is no overlap and house units are used exclusively in industrial applications and would not be present at all in automotive or heavy truck. So there are differences both in physical characteristics and end-uses.

Turning to interchangeability there is no interchangeability between TRBs of different sizes and specifications. That's true both within in-scope TRBs, within the out scope TRBs and across the in scope and out scope TRBs. But as was testified, TRBs of the same part number produced by different manufacturers are interchangeable. So that's the interchangeability factor.

Turning to manufacturing facilities processes and employees, first with regard to manufacturing facilities the vast majority of Timken's production of in scope TRBs is in plants that only produce TRBs that are 8 inches or under.

Most production of over 8 inch TRBs are in plants that do not make high volumes of the in-scope TRBs. Timken has completely separate plants for rail TRBs and for house TRBs though there is some overlap in plants that produce wheel hub units and un-mounted TRBs.

But these differences in plants is really dictated by the differences in the manufacturing process for in-scope TRBs and other TRBs. As Mr. Coughlin testified, production of 0-8 TRBs are a very high volume TRBs that are produced on continuous lines that are much more automated and relatively less labor intensive and so it makes sense to concentrate production of these large runs of high-volume TRBs in single plants that are dedicated to that type of production and these types of lines would not be suited to produce the larger TRBs.

For the larger TRBs over 8 inch production is much more a step-by-step process. The lot sizes are much smaller. The process is much less automated, not on continuous lines and this type of production process is also not suitable for producing the high volume 0-8 inch TRBs. There are also differences in the production process when we look at the housed TRBs.

As I said, they are completely different plants for rail and for housed units and for wheel hub units, even where there might be overlap in a plant the production of a

wheel hub unit takes place in a dedicated cell incorporating additional materials and with separate workers from those that produce the TRBs that are not in wheel hub units. Again, this is also requires the use of separate employees, either in the different plants that differentiate by product or in the different steps of the production process based on the differences in the products.

Turning to channels of distribution, as we said in scope TRBs are concentrated in the automotive and heavy truck markets and that is mostly OAM though there are also in the aftermarket particularly the automotive aftermarket. Over 8-inch TRBs as we discussed are not present in the automotive market at all and in either the OEM or after market. They are concentrated in the industrial and distribution markets and while of course wheel hub units will also be present in automotive, rail is seen as a completely separate market and housing units are only in the industrial market and not in the automotive or heavy truck market.

Due to these differences, customers and producers perceive these as different products and finally with regard to price the larger and further manufactured TRBs are generally priced higher than the in scope 0-8 inch TRBs of course due to the additional materials or the additional manufacturing that occurs for both the larger TRBs, the

wheel hub units, the rail units and the housed units.

So based on all of these differences we think that domestic like product definition should be limited to the expanse of products included in the scope because of the different scope of this investigation compared to the China investigation.

Turning to the conditions of competition, as our witnesses testified we believe that demand has been flat to declining over the period we are looking at. While there have been some increases in automotive builds that's been offset by lower demand and use segments such as agriculture and industrial users supply is plentiful in the U.S. Market given the excess capacity both within the Domestic Industry and on a global basis.

There is a high degree of substitutability between Korean product and U.S. product as was testified, Korean producers producing the same part numbers that Timken produces particularly when you get to the higher volume part numbers where they have been focusing. Price continues to be an important factor in the market. The Commission has recognized this in previous cases on TRBs.

There are both spot and contract sales on the market. Contracts do no shield producers from price competition. Contracts are renewed often and it was discussed a fine number of contracts also have resourcing

clauses that allow the customer to change suppliers based on the inability to meet lower prices. So price continues to be a very important factor in the market regardless of the presence of some long-term contracts.

Turning to the volume of Subject Imports and this is based on our estimates because there was only a tariff breakout at the 8-inch starting in July of 2016. We have estimated prior volumes of 0-8 inch TRBs from Korea using the ratio post July 2016 and applying that to the previous import volumes. So on an absolute basis the volume of Subject Imports is significant, more than 11 million TRB equivalents in 2016 at nearly 64 million dollars.

There has also been a significant increase in Subject Imports by quantity increasing by more than 90 percent from 2014 to 2016, by another 40 percent in the 1st quarter of this year and by value also increasing by more than 50 percent from 2014 to 2016 and another more than 50 percent in the first quarter. Based on Timken's other data we possibly if there have been increases in Korean imports relative to domestic production and consumption.

This slide shows the volume of sub based on million bearing equivalents, increasing from 5.9 million to 2014 to 11.2 million in 2016 with another increase in the first quarter of this year. The next slide shows the value of covered TRBs from Korea in millions of dollars increasing

from nearly 42 million in 2014 to nearly 64 million in 2016 and again with another increase in the first quarter of 2017 so we believe by any measure that the Commission should find the volume of Subject Imports from Korea to be significant.

These rising volumes of Subject Imports have had significant adverse price effects on the Domestic Industry. There's been significant underselling by Subject Imports in Timken's experience. Prices for Korean TRB sets that have been quoted to Timken sales people by their customers are significantly below Timken's own prices for those exact same part numbers. The Petition reviews a number of these examples showing underselling margins as high as 30 percent as our witnesses testified.

When Timken is unable to meet this Korean price or come to a competitive level with these low Korean prices, it has lost sales volume and this underselling has happened exactly at the same time as Korea has gained market share. Of course domestics lose sales volumes because they can't meet price and the Subject Imports gain sales volume.

Average unit values for Korean Imports have also declined in most of the categories that we can identify from 2014 to 2016 and in the Petition a comparison that we provided between Timken's own sales data for parts where underselling has occurred showed that while Timken lost volume across all part numbers they lost the most volume

where they were the least able to meet the Korean price so it shows a very direct relationship between the inability to meet a low price and a loss in sales volume.

Now while we heard this morning that perhaps there is no price depression or price suppression we would be happy to address that in more detail but of course underselling alone is enough to find significant adverse price effects particularly where it's permitted the kind of shift in market share that we have seen in this case.

The rising volumes of low-priced imports from Korea have caused material injury to the Domestic Industry. Over the same period that Korean Imports have grown Timken has suffered significant declines in its shipment, sales revenue, production, employment, wages paid and hours worked and we believe that Timken's experience is representative of the industry as a whole given that it's a major domestic producer of TRBs.

As these sales values have declined, Timken has also experienced very low capacity utilization rates, which are now at virtually unsustainable levels on a number of plants as our witness just testified.

The absolute level of operating income has also fallen as their sales revenue has declined, and they have sharply curtailed their capital investments in their U.S. plants and are basically disinvesting in those plants

when capital expenditures are compared to depreciation on these same products. They've also reduced their R&D expenditures, which is very difficult to do in this type of industry, where engineering and being able to engineer to new applications is so important in terms of gaining business.

In a highly capital-intensive industry like TRBs, as the Commission has previously recognized, such low capacity utilization and disinvestment are simply not sustainable over the long term. If relief is not provided, subject imports from Korea threaten further material injury to the domestic industry.

First, the domestic industry is already vulnerable to injury given the fact that it's already experienced such sharp declines in sales since 2014 and is already at such low levels of capacity utilization. Korean producers will have the ability to continue penetrating the market, give the fact that they're already accepted at a large number of accounts and have won numerous supplier awards, as our witness has testified.

The conditions of competition in the U.S. market in terms of high degrees of interchangeability within part numbers and the importance of price and purchasing decisions will allow Korean producers to continue to use underselling to gain market share if relief is not provided.

The data in the petition also show that Korean producers are highly export oriented, and that the U.S. market in particular is a very large and attractive one for Korean exports.

The next slide review is based on Korea's own export data for TRBs. The change in the number of TRBs exported to the U.S. versus the rest of the world from 2014 to 2016. The exports to the U.S. grew by almost 128 percent, whereas exports to the rest of the world grew by 46 percent. So 46 percent is enough to show a real interest in exports, but to increase by more than double that rate to the U.S. market shows the high attractiveness of the U.S. market.

Another factor to think about in threat is a number of the lost opportunities that Timken has identified in terms of new contract applications, as Mr. Ruel was testifying. Those are over long life cycle contracts. So if a contract is lost this year, it means in the next two years we'll see an even bigger increase in imports from Korea.

So current losses don't include just current sales, but loss of the ability to supply in future applications. So that also lead to the growing presence of Korean imports in the U.S. market. In conclusion, subject imports have nearly doubled in volume from 2014 to 2016 and

have continued to grow in 2017. Korean product is offered at prices that significantly undersell Timken's own prices, causing Timken to lose sales and market share, and we believe the data the Commission has collected will show that this is true for the domestic industry as a whole as well.

Since 2014, the company has suffered injury across nearly every indicator the Commission examines, production, shipments, employment, absolute profits, etcetera, and if relief is not provided, Korean threaten further material injury in the imminent future given the export orientation of the Korean producers and their demonstrated ability to gain market share through significant underselling.

For all of these reasons, we respectfully ask the Commission to make an affirmative preliminary determination, and we look forward to your questions. Thank you.

MR. STEWART: That concludes our direct presentation, Mr. Anderson.

MR. ANDERSON: Thank you, Mr. Stewart and thank you for our witnesses and panel for your presentation. Very helpful. We'd now like to turn to staff questions, and we'll start with our investigator, Ms. Martinez.

MS. MARTINEZ: Good morning. Thank you for your testimony and for being here today. I apologize in

advance if I skip around a little bit. This might be a question for counsel, but just for the data, data-wise, is there anyone major missing from the data set to your knowledge, whether it's a U.S. producer, importer or foreign producer?

MR. STEWART: The answer is yes. We'd be happy to go over that separately in terms of who's missing at the present time. But there's at least one major domestic producer who's missing.

MS. MARTINEZ: So you'll address that in the post-conference brief or --

MR. STEWART: Either that or by phone conversation, whatever will be helpful to you.

MS. MARTINEZ: Okay, okay. Thank you. So in terms of the import data, I know that there's a lot of -- the HCS situation's a little bit complicated. Can you talk about how you think the Commission should handle the import data? Should it be more in questionnaires or also talk about what is this ratio that you applied for, you know, for the new HTS categories into the other years and methodology?

MR. STEWART: We would suggest that the Commission staff compare the information that you have from the import community that has responded to date to the estimated import statistics that we have in the petition, and to the extent there is a significant deviation from

that, to try to identify either from the Customs data who might be missing in terms of imports that are coming in. We think that there is reasonable coverage at the moment, but it's not -- it's not what I would call good coverage as yet.

MS. DRAKE: Elizabeth Drake, Stewart and Stewart. In terms of the methodology that we use, we took -- we looked at July 2016 to March 2017 imports from each country, and looked at each area where a new breakout was created for over eight inch TRBs, whether that were cups, cone assemblies, what have you, and we would -- so we would apply the ratio of zero to eight to total during that period since the breakouts were available, and take that ratio and apply it to that relevant product in the prior periods.

So if 50 percent were zero to eight, then we would take 50 percent of whatever the cone assemblies that were imported prior and estimate those were also zero to eight, and we did that on a country-specific basis, and separately by volume and by value.

MR. STEWART: And in the case of Korea at least, it is relatively easy since zero to eight is virtually 100 percent of the unmounted TRBs. So there's very little correction there. But we had at least one exhibit in the petition that gave you all of those percentages and how they were applied country by country, so

you can see what, how the calculations were done from that. At least you should have that -- we believe you should have that information as a reference point to compare to what you get from the questionnaire responses, to the extent that there's a significant differential.

MS. MARTINEZ: Okay, thank you. During the testimony, you spoke about the same equipment and machinery, and how you're only able to produce the zero to eight inches, as opposed to other out of scope products. But I'm wondering about the ability to shift production to out of scope products or any other alternative products. If the market called for it, would you be able to switch out those lines of in scope, zero to eight inches, to out of scope?

MR. COUGHLIN: No, no. Those lines are, you know, bearings are an engineered precision product. So asset configurations are, you know, to make very tight tolerance, precision-type materials. So you can't generally speaking take that asset for like a zero to eight inch taper and then go make something else with it. So that's the technical side of it.

MS. MARTINEZ: Okay. Anybody else have anything to add?

MR. STEWART: I think that the long history of cases that have been before the Commission, you would find that that has always been true, and if you look at the

individual Timken facilities, the setup of the facility you would either have to totally start over and strip the facilities of its machinery and put new machinery in, that would allow you to do something different. But you don't have the ability to shift either between types of bearings or between under eight and over eight.

You have few facilities which are smaller volume facilities where there's equipment that does both, but it tends to be different equipment in the facility that does both, so you could increase some production in a few of those facilities. The house bearings and rail bearings and those sorts of things, to the extent that you have final assembly in a separate facility, that facility's only there to do that and the cells that do wheel hub units are cells to do wheel hub units. If you saw the cell, you would understand it isn't going to do anything else.

MS. MARTINEZ: So you would need just separate equipment or machinery to produce other tapered roller bearings. During the history of Timken, have you focused on larger diameter or, you know, less than eight inch diameters throughout the years?

MR. COUGHLIN: So Chris Coughlin. If you go back in the history of the Timken Company, it actually came up through the automotive industry, so clear back in the early 1900's. So the origins of the company were really in

zero to eight inch tapers. But you know, for 80 to 100 years though, we've been making bearings for other applications.

So today, fast forward to today, I mean we make bearings that you can barely see with a microscope for a gimble on a guidance system, as an example, all the way to a three meter bearing which would be used on a wind turbine. So and that would be true for like Schaeffler as well and most of the major six global bearing makers would span those kind of ranges.

MS. MARTINEZ: But would you say that you focus on the in scope merchandise or equally focus on the within scope and then the larger diameters?

MR. COUGHLIN: You know, we're a diverse company, so we have different segments of the company. This specific petition is about one part of the company and we compete in those markets. Zero to 12 inch tapered roller bearings are about 50 percent of the company's sales, and I'm sorry, that's different than the petition on zero to eight, but just to give you a frame of reference.

So this is clearly an important product category to us, but we do compete in a lot of other industries and products as a diversified engineering products company.

MR. STEWART: Mr. Coughlin's comments

obviously reflect their corporate structure. You have in the questionnaire response, of course, in Part 5 information that gives you the breakout of the sales that the company had in 2016 for the different categories, and you can see from that what the relative sales in the United States from the U.S. manufacturing facilities is for product over eight for housed or wheel hub units, etcetera.

MS. MARTINEZ: I was just asking here, just to speak about it more broadly in a public setting, that's all.

MR. RUEL: Brian Ruel from Timken. Just to add a little bit more color to that. So from a sales standpoint, emphasizing markets, the way we're organized we are focusing on most markets that utilize tapered roller bearings. So it isn't that we are pushing --

MR. BISHOP: Pull your mic a little closer please.

MR. RUEL: It's not like we are pushing the sales force to stay away from any markets. We're going after all markets that utilize this type product.

MS. MARTINEZ: Okay, thank you.

MR. FRACASSA: Excuse Ms. Martinez. Phil Fracassa here. I was just going to add a comment or two. So you know, as Mr. Coughlin mentioned, we have broad capabilities in bearings and mechanical power transmission products. So we, you know, we endeavor to grow where we see

the best opportunities for returns for our shareholders.

So we have, you know, we look to grow in all parts of the business, including zero to eight tapered roller bearings. If you look back over the last several years, we have grown more in the greater than eight inch bearings as a percentage, and it's really frankly we've seen opportunities in that space and the zero to eight inch space has been challenged for a number of reasons, including the reason we're here today.

But we do have, you know as I mentioned, we do have broad capabilities and do look to participate in the diverse industrial markets, including automotive, and continue to grow in all segments in which we operate.

MS. MARTINEZ: On a semi-related note, can you talk about the global trends for the eight inches or less and the greater than eight inches, you know, particularly for Korea of course? Would you say that Korea has always been focused on this market, or is it equally focused, maybe not as export oriented? Anything like that would be helpful.

MR. COUGHLIN: So the tapered roller bearing business is a global business. It is different in different regions of the world. The U.S. market is a very attractive tapered roller bearing market primarily because of history. In terms of the, you know, higher performing type tapered

roller bearing market, where most people want to compete, the U.S. is a very attractive market.

That said, the China market is very, very large, but there's a segment of that market that is relatively low technical performance, where most of the global bearing makers wouldn't make that product. It's just it's very standard, made to lower specifications, if I can use that terminology.

So you know, the U.S. market is a very attractive market for tapered roller bearings from that perspective, and you know, most of the -- a lot of obviously Koreans, Korean operations are focused on it. But likewise, it's a very global market.

MS. MARTINEZ: Okay.

MS. DRAKE: Excuse me, Ms. Martinez. Elizabeth Drake. I believe part of your question was where Timken might see the Koreans being focused in terms of zero to eight versus over eight, and as Mr. Stewart testified, the import data, at least U.S., shows that it's almost all very large majority zero to eight, and that's been their focus and I think our witnesses testified to the fact that they've been focused on the high volume part numbers, which are largely zero to eight part numbers.

MS. MARTINEZ: Okay, thanks. So I just have the official import statistics in front of me, but I'm just

looking at the import trends, right. So for Korea from 2015 to '16, imports increased. But then the largest non-subject sources, Japan and China, it actually decreased. Is that due to the change in HTS classification somewhat, maybe it's not 100 percent less than eight inches or less than eight inches for those so it's a bit of a mix? Or what could be driving those trends?

MS. DRAKE: You're looking at our import statistics or you're looking at the official ones, not adjusted for --

MS. MARTINEZ: No, official.

MS. DRAKE: So we also, when we attempted to estimate zero to eight imports from Japan and China, also saw declines just in the zero to eight unhoused without wheel hub units from Japan and from China, with a large decline from Japan from 2014 to '16, a smaller decline from China. This is based on value. So we see those same trends even within zero to eight, based on our estimates, or overall, though Korea is the third largest source behind those two countries.

Korea has been growing rapidly while these other major sources have been declining, and of course China's already subject to an anti-dumping order on all of those TRBs.

MS. MARTINEZ: So you would attribute those

declines in imports due to lower demand in the U.S.?

MR. STEWART: We believe that when your record is finished here at the prelim, you'll have a better idea as to whether overall demand has been flat or declined. Obviously, looking at imports as we've estimated the imports, other than Korea you see declining imports from the rest of the world, and Timken's production has -- and shipments domestically have gone down.

You know, whether that's offset by other domestic producers and what you see from the import community in terms of their response, it may give you a better sense. But we believe demand has been flat to down over the period that's here, and so you have one outlier that has grown very rapidly and that's been Korea, and we know that that's been due to acquisition of a large number of contracts that they have done, both during this period and for a year or two before that you're seeing shipments that are coming in during this time period as well.

MS. MARTINEZ: Thank you. During the testimony, I believe it was Mr. Ruel mentioned sourcing from sister plants to meet the lower Korean prices. Can you elaborate on that a little bit more? Is that your primary reason for importing or who are your sister plants and just talk a little bit more about that please?

MR. RUEL: Yeah. Brian Ruel from Timken. The

sister plants would be many of the zero to eight inch taper plants that Timken has outside of the United States. As we are working with our customers to try to find the best solution for the application, including any -- all technical requirements and any of the price guidance that we've received from our customers, we are putting that up against our ability to compete from various supply chains.

With U.S. consumption, obviously from a logistics standpoint, from a supply chain risk standpoint, it is in our best interest and the customers' best interest to try to minimize the length of that supply chain, if you will. So our first look would be can we compete out of a U.S. facility to minimize the length and the complexity of that supply chain.

If that cannot be met, then we are looking at facilities that provide -- that have these capabilities outside of the United States, and then looking at our cost structure and obviously the implications of the supply chain on the business case, to see if that is not a good solution. So with all of that, then comparing it to the rate of return that we can expect based on the market price and factoring in whether or not that will, you know, generate a reasonable rate of return, as Mr. Fracassa was talking about.

MR. STEWART: This is Terence Stewart. You will also see in the questionnaire response that the company

is a major exporter as well, and so they are shipping products to clients through their other facilities around the world, where the economics and skill sets in the United States can support exports as well.

MS. MARTINEZ: Thank you. One more question on the data. So would you say that global trade atlas data is accurate enough to portray the global exports which are specific to the zero to eight inch diameter products?

MR. STEWART: Again for -- we would assume, without knowing, obviously you have two of the major Korean producers who are here today. I'm sure you can ask them to identify the extent to which they have product above eight inch. But based on the U.S. import statistics, we would say that the global stats are certainly relevant for Korea, where there's a very close correlation or appears to be a very close correlation between U.S. import stats and zero to eight.

Whether that's true for other countries I think is less clear. Certainly for a country like Japan or for China that is -- that has a full product range and so a lot of the full product range, whether the percentages that get shipped to the United States are a fair reflection of what gets shipped to the rest of the world, I don't know.

MS. MARTINEZ: Okay, thank you. I understand that Timken is part of a foreign trade zone. Can you please

describe the nature of the operations within this foreign trade zone? Are you importing the subject TRBs into the FTZ as imports for further processed products or is it just straight importing and then selling in the U.S. market for consumption?

MR. COUGHLIN: So I believe you are referring to Crossville, Tennessee, which is known as Co-links, which is a major distribution center of the products. Yes, and there are -- there are imports and exports going both in and out of there. So there and so I believe that's what you're referencing, but it's primarily a distribution center of product.

MR. FRACASSA: Yeah, I would agree. I would add that Crossville is really a hub for us for really the region, the Americas region in general. So we have a lot of product coming into that facility. It can end up in the U.S., it could end up in Canada, Mexico, even Latin America. So we set up the foreign trade zone to allow us to bring the product in and ultimately if it comes in and leaves the United States, we can rely on the FTZ and then obviously if it's used in the United States, then we would use it and apply it in whatever import requirements would exist.

MS. MARTINEZ: So everything you're importing into this foreign trade zone is then re-exported?

MR. FRACASSA: No, no. A very, very small

percentage would be. The majority of what we would bring into Crossville, Tennessee, which is the facility Mr. Coughlin referenced, the majority of it, the vast majority of it would remain in the U.S. But there is a portion that does get exported. So we used to have to do drawback and a more complex process. So to simplify the process for us, we put the foreign trade zone in effect.

MS. MARTINEZ: So what you're importing, is that further processed within the FTZ before going into the U.S. market for consumption or what's actually -- what's going on there?

MR. COUGHLIN: So no. Once again, bearings are very precise engineered products. So you don't make all bearing products in all regions. So it's very common to move bearings from -- if we only have the type of asset configured to make a certain bearing in Europe, we would bring that bearing into the United States and then sell it in the United States.

So this is -- but it's coming in as a finished product almost generally speaking. I mean there's some rare exceptions to that, but it's almost always finished, in packaging. It's just distribution through the -- distributing the product to the customers in the channels.

MS. MARTINEZ: This might be an obvious question but why, why are you importing into this foreign

trade zone as opposed to using other importers to bring the product in?

MR. COUGHLIN: Co-links is a -- actually a joint venture of Schaeffler, SKF, Timken and a group of us. We are shipping to the same distribution channels, and you have to consolidate all these different products together. The customers don't want a one product distributor. So you need consolidation points, distribution points to be able to consolidate into freight lanes to get the product to the end use customer.

So that is why you have distribution. All major bearing makers have global distribution centers all over the world, where we consolidate our product from all the different points and then consolidate shipment to a final end use customer. So it's just the structure of the distribution of the product.

MS. MARTINEZ: Okay. That's very helpful. Thanks for clarifying that for me. Moving on, a more general question. Have there been any recent changes to the industry, so just new technology developed to produce tapered roller bearings in the recent years?

MR. COUGHLIN: It's a slow-moving industry I would say, is how I would characterize it, versus like Apple phones or something of that nature. It evolves over time. There are clearly emerging materials. In the aerospace

world, still zero to eight, there's ceramics or things. So, you know, I would say it's mostly in materials would be the primary technology driver at this point in time. That's a gross generalization, but it's also a slower-moving industry from a technology perspective.

MS. MARTINEZ: So no updates to the production process or anything like that?

MR. COUGHLIN: No, no, no. There's clearly process development, process development of technology. In a lot of cases when we talk about technology, it's process and product, right. So you're developing both of those. No, no, no. There's very clearly process development, you know.

There's one major bearing maker is working on stamped processes versus machining grinding processes as an example. So there are clearly -- it's clearly a technical industry that is evolving, but not earth-shattering like overnight someone comes in with a disruptive kind of technology. It's slower-moving.

MS. MARTINEZ: And would you say the production process is similar in Korea? It's produced the same as in the U.S.?

MR. COUGHLIN: At the intellectual level, I would say yeah. I don't factually know that. I've never been in the Korean competitive bearing plants, but generally

speaking I mean the processes of making a zero to eight inch high volume tapered roller bearing are fairly standardized type processes. There may be nuancing in gauging and inspection and things of that nature.

But I mean you're grinding a cone, you're grinding a cup. You've got a gauge, you've got a roller, you've got profiles and then you'd assemble it.

MS. MARTINEZ: Okay, all right. Thank you. Those are all my questions for now.

MR. ANDERSON: Thank you, Ms. Martinez. Now I'll turn the microphone over to Mr. Soiset.

MR. SOISET: Good morning and thank you all for your attendance. We appreciate your assistance and --

MR. BISHOP: Could you pull the mic closer please?

MR. SOISET: Better?

MR. BISHOP: Yes.

MR. SOISET: There we go. Good morning and thank you all for your attendance. I had a few questions about domestic like product this morning. Specifically noting I believe we've recently started the fourth review for TRBs from China, which as you know has a different scope. So just to clarify, do you intend to continue arguing for the domestic like product and TRBs from China to be co-extensive with that scope, and this proceeding that

our domestic like product should be co-extensive with the different scope for TRBs from Korea?

MR. STEWART: Correct. That will be our position in the China case, and we tried to articulate that in our direct presentation. That's not dissimilar from what you've seen in other cases that have similar products but different scopes in terms of investigations.

MR. SOISET: And so, just on a big picture, are there any other--you sort of mentioned the fact that Korean imports are focused in the range for your scope. Are there any other sort of big picture areas that there's a difference in imports from Korea and China that would support different domestic like-products for these orders?

MR. STEWART: Well the China, I have the distinction of having been with my Dad and brought the case back in 1986, and so I recall what we were doing in that time. And there was a case on Japan that had not been brought as a zero to four, but that Commerce had decided was limited to zero to four, and we'd had one major company that had gotten out of the order. And we were facing an intense pressure from Japan and a number of other countries, and China at the time was an up-and-coming country. And if you looked at what they were shipping in 1986, it was probably zero to eight high-volume and full of part numbers, because that's what the case in 1973 on Japan had been.

But Japan was a full-blown, across-the-board every type of bearing, and they were bringing in unfinished parts as well. And so that case, when we brought those cases, the intention was to have complete coverage so that we weren't faced with constant invasion, and so we weren't faced with not getting into a situation where we were seeing relief in the marketplace, if as we believed significant dumping was going on. We thought there was 35 to 40 percent margins, and the margins that came out in '86 on Japan were close to 40 percent.

So China is now the large player globally, and they produce across the board. We've not seen across-the-board from Korea, but we would anticipate that as China--as Korea continues to develop its industry, that it will not be long before there probably will be imports across, in other segments. There's nothing that prevents Korea from expanding and shipping in other products; we're just not seeing it. It's not the cause of the injury at the moment, and so our focus is in terms of trying to deal with the cause of the injury.

The cause of the injury for us is in the zero to eight TRBs.

MR. Soiset: And going back to that original China investigation, the Commission stated that there was no diameter size in which you could make a clean division of

TRBs; that it seemed to be a continuum product.

So has that changed? Do you think that that was incorrect at the time?

MR. STEWART: I think if you were looking at a scope that includes all TRBs, then that answer is correct. Because the scope is the entirety, and the question is: Are you going to split the industry into multiple industries? And there have been many efforts over the years to try to-- from the respondent's side, to try to say, hey, make this multiple industries in the hope that maybe we'll get some slices of the pie that would fall out.

So where you have a broad scope, this is an industry that properly is characterized as a continuum of product. Where you have a narrow scope, is there a basis to go beyond that scope in terms of what the like-product is? We believe in this case the answer should be "no," for the reasons we've articulated.

It's not that there's a change, other than in the scope of the proceeding. And the Commission has often said that it looks at each case on its own facts, and starts from the premise that you're starting with whatever the scope of the case is, which after all is what is the like-product? It is what is like, or competitive with the scope merchandise.

So we don't see any inconsistency. Obviously

it's an important issue for you all, and that's the reason we spent a fair amount of time trying to go through it today. But our intention on the China case is we believe that the China case was properly decided in the third sunset review, and in the original investigation that there was a single like-product, and that that continues to be true where the scope is everything.

Where the scope is not everything, we think that you need to look at the facts, and we've tried to articulate what those facts are that would justify limiting the like-product to the scope, which is after all what the normal Commission practice has been.

MR. SOISET: Yes, Ms. Drake did a very thorough job going through our factors for the zero to eight inches, and your arguments for that. Now the issues that you went through, is that true just for Timken? Or do you believe that's true industry wide for other TRB-based producers as well?

MR. STEWART: We would believe that it will be true for other producers, as well. Let me give you an example.

Timken has a facility called Tiger River which is where they make the really large bearings. All of the major international players, if they produce large bearings, have a facility like Tiger River where they make their super

large things that are 24 inches or over. Those are what you would call the "ultimate job lot" type of products where maybe you're making 1, 2, 5, 10 of an item. And if you have to make something that's got a diameter of 7 feet, or 9 feet, or 12 feet, obviously you're going to make that on equipment that's different than if you're trying to make a product that's got a diameter of 2 inches.

So you have facilities like that. And that would be true around the world. And we think that most other producers will similarly have facilities that make the over-8 that is moderate volume and smaller volume.

MR. SOISET: And it would be helpful, I think, if in your postconference briefs you could submit any sort of industry information showing the sort of division between 0 to 8 inch, as well as other sizes, just as an indication that this is, you know, recognized more broadly; that this is sort of a distinct category of product.

MR. STEWART: In terms of things such as manufacturing facilities around the world?

MR. SOISET: I think anything that shows the distinction between 0 to 8 inch and larger, whether it be manufacturing facilities, marketing materials, whatever it may be that sort of supports the fact that there is this, you know, whether it be small or large diameter, whatever terminology you want to use, that there is a sort of

recognized division of the industry.

MR. STEWART: We'll see what we can provide.

MR. SOISET: Okay. And then regarding wheel hub assemblies, how much of the argument, in going through domestic like-product and talking about distinct customers and distribution channels and production facilities, is that also true for wheel hub assemblies?

MR. STEWART: Well, Ms. Drake, when she was going through it, identified where there were assemblies. Obviously wheel hub units are used on--in the automotive and heavy truck arena just as 0 to 8 unmounted are. So the major difference is the substantial additional manufacturing that goes in in terms of the inclusion of the hub and whatever accouterments it may be, if it's an ABS system or, et cetera.

So back in the third sunset review, most purchasers indicated that they had different perceptions of wheel hub units than non-wheel hub units for the fact that it's a bigger piece and it serves--it is a step further down the road, if you will, in terms of being used by the assembler in terms of their purchasing it.

So there's a difference in perception that was clearly identified back then. It wasn't enough, because there were other mounted products like railroad bearings, like HOWs bearings, that are also--were part of the case,

and part of the Order in that situation to say that wheel hub units were unique. And I think the same thing is true here.

There are differences. There are clearly differences in terms of what the product is. You take a bearing and you add stuff to it. And there is higher value, assuming that it's the same bearing that would otherwise be sold.

You have different consumer perceptions. There is a distinct manufacturing process to go from the bearing to the wheel hub unit. And that is clearly distinct in the facility. It's unique sales with unique personnel that are working on it, et cetera.

So all those things are true. Are the channels of distribution different than 0 to 8? No, they would not be since it basically goes automotive and heavy truck, and those are the same as the bulk of the 0 to 8 mounted. So there are some things where you would have similarities, and some things where we believe there are differences.

MR. SOISET: And so it sounds like in the third China review, obviously you took a different position there, that wheel hub units were a part of the continuing domestic like-product based on a different scope. But it sounds like some of the products you were arguing that were similar maybe are out of the scope in this instance? Especially I

was going through the transcript for that hearing and there you were arguing that really it's the same assembly lines, it's the same workers, that though there are components added it doesn't really change its function as a bearing.

MR. STEWART: I re-read the transcript, and of course I was the one that was speaking back then, so I was trying to refresh my recollection in a case where someone was asking me the question. I think what you will see is the manufacturing process is identical up to the point that you have the cone assembly, and/or the cup, depending on whether or not the cup is built into the wheel hub directly in which case it wouldn't be the same obviously. But after that, that it is different.

And we always said that there was a different cell that did that manufacturing, and so you have additional materials. But in that case the issue was that, having different materials didn't make it a distinct product because you had railroad bearings, you had HOWs bearings also in those, and no one was arguing that all those products were somehow a different like-product.

And so just singling out wheel hub units didn't get you anywhere, in our view, for those reasons. And we did note that at that time that you had similar channels of distribution, or identical channels of distribution as you would have for much of the product. Obviously it doesn't go

through industrial distribution. It doesn't go through industrial OE as a general matter, even if you might find some aberrational use for it.

MR. SOISET: Okay. Thank you. And do we have a clear definition? I know that was another contested issue in the Third China Review. I think there was a disagreement between Petitioners and Respondents as to how to define what a wheel hub unit is. Do you think that is something that you can more clearly define in this record at this time?

MR. STEWART: Yeah. The only argument in the Third Sunset Review was that the Chinese producers of wheel hub units had been shipping product in and claiming it as auto parts, and pretending that it wasn't covered by the Order.

In 1986, the GEN2/GEN3 wheel hub units didn't exist. But the case did include GEN1 and did indicate that there were future generations coming, and that it was intended to cover wheel hub units.

And so we spent a lot of time on that argument. But I don't think that there is any misunderstanding as to what a wheel hub unit is today. And that it--I mean, we're not covering it, and so the GEN2/GEN3, which is where most of the OE business has been moving in the last five or six years, is not part of this case, at least in terms of the imports.

MR. SOISET: Okay, thank you. No further questions right now.

MR. ANDERSON: Thank you, Mr. Soiset. Ms. Von Kessler?

MS. VON KESSLER: Thank you. Thank you, all, for appearing here today. I just have a handful of questions.

First, is there a particular standard that TRBs are made to, like an ANSI or ASME?

MR. COUGHLIN: Yeah, there's multiples. There's actually an ANSI standard. Generally the easier point. And then there's also metric. So it depends where you're at in the world. ANSI tends to be North and South America. Metric tends to be pretty much everywhere else.

MS. VON KESSLER: Okay. In the postconference brief could you just specify those for us?

MR. COUGHLIN: Sure.

MR. STEWART: We also did provide in the Petition excerpts from a Timken catalogue that went through the different standards, or the way the products are measured.

MS. VON KESSLER: Okay, great.

MR. STEWART: But we'll be sure that there's something in the postconference.

MS. VON KESSLER: Great. Thank you.

We've been talking about the TRBs going to OEMs. Would auto production or auto sales be a better indicator of

demand in the auto industry?

MR. COUGHLIN: For TRBs?

MS. VON KESSLER: Um-hmm.

MR. COUGHLIN: That gets a little complicated because you've really got to get down to a platform. Not all automotive cars and trucks are using the same technical type products. I mean, sometimes you're using ball bearings, sometimes you're using TRBs, sometimes you're using packages.

So when you look at the total market, you almost have to get down to the actual platform within the automotive sector if you want to get to a specific product in terms of its actual quantity or market,

So, you know, that--so that's, you know, and generally speaking like standard passenger cars will have a lot of ball bearings. They wouldn't have tapered roller bearings in this context. They have some, but I mean it's--so it depends on platforms.

MS. VON KESSLER: Okay. And I believe it's generally steel going into this, but what is the main raw material that you guys source?

MR. COUGHLIN: It'S generally steel, the vast majority.

MS. VON KESSLER: Okay, and how do you incorporate changes in the cost of raw materials into your selling

prices? And is there any price adjustment mechanism in your contracts for that?

MR. RUEL: Brian Ruel, Timken. Yes, we do take that into account in many of our contracts with customers. There are various material recovery models that are in place.

MS. VON KESSLER: And in the postconference brief, if you could briefly describe one or two of those, that would be helpful.

MR. RUEL: Sure.

MS. VON KESSLER: And we've gone over the resourcing clauses. Are those standing in your contracts? Are those what you offer to customers? Or are they requesting a resourcing?

MR. RUEL: We have--Brian Ruel with Timken--we have many different types, or different language in different contracts. Those are all uniquely negotiated with each customer. Some may have resourcing clauses. Others may not have resourcing clauses, depending on the overall commercial picture.

And then within those resourcing clauses, they would have different stipulations. So I guess the short answer is, they're all custom.

MS. VON KESSLER: Okay. Great. Are there substitutes for TRBs? We've mentioned other kinds of ball

bearings--or other kinds of bearings, but in general are there?

MR. COUGHLIN: Well once an application is engineered, no, generally speaking. I mean if it's engineered to a tapered bearing, you will use a tapered roller bearing if you're doing that application.

In the engineering, very clearly you can have different types of bearings in the engineering, and the customer is looking for, you know, different--different characteristics, or--so in the engineering, you can clearly engineer one type of bearing versus another in certain application sets.

MS. VON KESSLER: Okay--

MR. STEWART: If I could just add--this is Terry Stewart--back in the Torinken case back in 1988 that dealt with ball bearings and needle bearings and spherical roller bearings and others, we presented a large number of examples of where that could be done at the engineering stage.

But the Commission I believe correctly found that that was not an adequate basis to find that there was any actual substitutability since, outside of that, as Mr. Coughlin said, you're basically limited to the product that it has been engineered for. Think about your car. If something happened to your car and a bearing was part of the problem, and you went in and they tried to sell you a part

that wasn't the same as the part that came out, your car wouldn't work, right? Or you wouldn't be able to drive it, or whatever.

MS. VON KESSLER: Okay. And last question, back to the auto production, when you mentioned platforms, can you just specify what you mean by "platform"?

MR. COUGHLIN: So a F-150 truck would be a platform in the context that I was talking.

MS. VON KESSLER: So some kind of brand.

MR. COUGHLIN: And then underneath that, with the Tier 1 suppliers you could have a certain axle platform, or a certain transmission platform. There's different tiers, if that makes sense, depending on the level of the component that's coming together to make a truck, if that makes sense. Does that make sense? Okay.

MS. VON KESSLER: Yes. Thank you. That's all I have.

MR. ANDERSON: Okay, thank you, Ms. Von Kessler. And before I turn it over to Mr. Yost, just a reminder to please identify yourself for the Court Reporter before you speak. So thank you.

Mr. Yost?

MR. YOST: Good morning. Charles Yost, Office of Investigations. I just have a couple of follow-up questions on items that my co-workers have touched on.

The first one is, I understand that Timken recently restructured and spun off the steel making unit. Is that correct?

MR. FRACASSA: Yeah. Phil Fracassa with Timken. Yes, that is correct.

MR. YOST: In postconference could you describe how the spinoff may have affected your TRB production and operations?

MR. FRACASSA: Certainly.

MR. YOST: Then, Mr. Schutzman, counsel for Respondents, indicated that there was a closure of one of Timken's plants, and that their economist would speak to that. I would ask you to take the opportunity also in postconference to respond to those arguments.

MR. STEWART: We'll be pleased to.

MR. YOST: Mr. Ruel, I think you mentioned that you have a number of long-term contracts. How long is a long-term contract?

MR. RUEL: Brian Ruel, Timken. Typically it would be three years. That would be a typical duration.

MR. YOST: I'm sorry?

MR. RUEL: Typically, three years would be--

MR. YOST: Then does that encompass or envision annual quantities with fixed prices? Or are annual quantities with prices to be negotiated at certain

intervals?

MR. RUEL: Generally they would be tied to particular part numbers, and then the volume of those part numbers would be understood, tied back to an application with an OEM. And there would be pricing clauses in those contracts to define the pricing and then, as we talked about earlier, other various clauses like material recovery clauses would be included in that as well.

MR. YOST: Okay, again thank you very much for your testimony. That concludes my questions. Thank you.

MR. ANDERSON: Mr. LaRocca, your turn.

MR. LaROCCA: Good morning. Thank you guys for coming here. I just have one quick question for you guys. Building on the question from Ms. Martinez regarding unfinished products, are there any technical specifications for steel that explains why you guys are requesting not to have the unfinished products included in this?

MR. STEWART: Well most of the bearing cases that have been brought have not included unfinished parts. Most cases before you don't included unfinished parts. So the fact that unfinished parts are not included is not surprising.

The one case that did was the case in '86, and that had to do with the business practices of our Japanese competitors at the time, and the concern that we had about

the ineffectiveness of the first Order on Japan.

But unfinished products go all the way back to rings, the first step. So you can have green rings. You can have machined rings. You can have heat-treated rings. And you can have rings that go through further finishing before it is a finished ring.

So we are excluding all of the stuff before the item is finished, which is what I would call the typical approach that petitioners have in cases.

MR. LaROCCA: Thank you, guys. That's it for my questions for today.

MR. ANDERSON: Okay, thank you. Now we'll turn it over to our Supervisor Investigator Mr. Corkran.

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you all very much for your appearance today and for your testimony, which has been very helpful.

I just have a few follow-up questions, the first of which is, following up on Ms. Martinez's line of questioning about sourcing decisions when you're looking to source from sister companies, can you provide a little insight about where in the Timken corporate structure those types of decisions are made?

MR. COUGHLIN: They're generally--this is Chris Coughlin--they're generally made by our global supply chain organization, is who manages global product flows.

MR. CORKRAN: And is that part of the U.S. corporate structure?

MR. COUGHLIN: It is part of the U.S. corporate structure, but it's also a global organization. They operate--they are a global unit with organization all over the world.

MR. CORKRAN: And you did touch on this, and I appreciate it, but can you expand a little bit more about some of the factors that go into deciding where to source particular products? I think you talked about both engineering/production considerations and pricing considerations.

MR. COUGHLIN: Sure. Well, it starts at the highest level. Once again, not all products are made in all regions. So if a certain region wants a certain product that's only made in Europe, then we're going to source it from Europe and then bring it into that region.

And this is due to the capital intensity and the specialized nature of the bearing industry. So it starts at that level. When you move down a level from that, where we could make the same bearing in multiple regions, in that terminology, you know we always preferably start with the local for local. That's by far the best model in terms of the speed to market, the length of the supply chain, and all those kinds of things. But that's where then the

competitive dynamics start coming in.

If local for local is not a competitive model, we have one of two choices. We either, you know, walk away from that business or, you know, stay away from the business, don't compete in that business, or we go to a facility that can deliver the product at the right cost point.

Now there's all sorts of factors going on around that. You've got everything from the volume--not all plants that make the same bearing are making it at the same volume. So we may move it to the really highest-volume plant, which would give us cost leverage. There's currency, there's the local dynamics of raw material supply chains, on and on and on.

So as you move into that decision making, there's a whole set of factors that can influence that decision.

MR. CORKRAN: Thank you very much. That was a very complete description and I appreciate it.

My next question has to do with the role of imports from nonsubject countries. And again, it builds on questions that have already been asked, but how do we--how does the agency distinguish between the impact of imports from Korea on the U.S. industry versus essentially straight-up displacement of imports from other sources?

MR. STEWART: Well, we believe that the record

that will be before you will show that the domestic industry's loss of market share is due in significant part to the increased imports from Korea.

There may be some displacement of third country imports, but that's not atypical for what you see. If the question is really more about this is not a commodity product, and so the issues that the Commission sometimes grapples with with whether or not they have nonsubject imports that appear to be at comparable or lower prices, in broad categories like 0 to 4, that's a hard thing to measure because you'd be looking at specific items, and even within a specific item you can have 20, 30 variations of an identical part number with different specifications or different treatments that can change the price by 5, 10, 20 times.

So if the issue is simply on the displacement, we think that you will find there's significant displacement of domestic product from what has come in from Korea. And that if there is displacement of imports, it doesn't overshadow the displacement of domestic.

MR. CORKRAN: Thank you very much. I appreciate that.

The last question I have is a little bit more technical from a production standpoint, but can you talk a little bit about heat treatment methods and different forms

of heat treatment, case carburizing versus through hardening, for example. What processes do you use in the United States or through your sister companies and what are the relative pros and cons of using those methods.

MR. COUGHLIN: So the most common break is the one you just outlined, which was through hardened versus case carbed. And Timken and all major bearing makers do both, okay, and it is related to the technical application sets. There's even some other types of heat treating and there's even sub-segments of different types of through hardened heat treating, be it buninick or certain types -- different types of heat treating underneath that.

So once again, most major bearing makers will do all of that and it's driven really technically is the answer to what the right solution is and there's a number of engineering parameters that determine what type of material you can use and how you can use it. Generally, the Timken opinion of this is case carburized is the highest of the hierarchy and there are certain places where you have to use case carburized. But once again, there's a lot of potential overlaps in there and material technology continues to moves. It's always advancing. So I would tell you, my personal opinion, through hardened today is better than it was 10, 15 years ago.

So those are sort of the dynamics of it. There

are some exotic alloys and heat treat methods used in generally not in this type of product that we're talking about here, but material and heat treat technology is very critical to the bearing industry.

MR. CORKRAN: I wonder if I could follow up on that a little bit to get a little more detail because, for example, when you made the statement Timken does both of the major types of heat treatment is that a statement that is true if you're looking at the particular sizes that we are as opposed to the larger sizes that are outside of the scope? And also, when you refer to Timken, are you referring to Timken located in the United States or the broader family of companies of Timken also.

MR. COUGHLIN: I'm talking about all, Timken Global and Timken U.S., okay, so I mean it's equivalent. Yes, I guess the -- I'm trying to think how to best answer your question.

We use through hardened in non-petitioned categories as we've defined it here today, so there are bearings greater than 8 inch that are through hardened. You know, once again, it's into the technical engineering of the application and what the dynamics of that application are.

Generally, the larger you go the more and more you require a case carburized as a general statement. Now you know there's all sorts of exceptions to that, but you

know, once again, it's rooted in the engineering and all global bearing makers focus a lot on material because it's a big part of the technical performance and it's a big part of the cost structure, so it's a very, very important topic for bearing producers.

MR. CORKRAN: Okay. I'm looking a lot at Dana's prepared testimony, which we'll hear directly in the afternoon. They draw a distinction or make a distinction, rather, in terms of price or cost for the two treatments. Would you agree, in general, that case carburizing is a more expensive method than through hardening and are there applications where you can use either form of heat treatment?

MR. COUGHLIN: There are certainly applications where you could debate through hardened to case carburized, so there very clearly are examples of that. You know, once again, I think it depends -- the total cost depends on more than just case carburized/through hardened, right? I mean there's everything from the volume or the part number. I mean there's a whole set of dynamics that determine a cost structure of a bearing.

Now that is an important one. I mean there is no question that the selection of material is an important one. As a rule of thumb, you would -- well, I don't even want to answer it because there's a lot of things that are

buried in that beyond just whether -- it's not as simple as just through hardened and case carburized, which is cheaper. Clearly though, through hardened is attractive process in material in certain application sets, absolutely and so you know we compete that way.

The other dynamic of it is also it also depends on where you're at in the world, okay. Because of the history with Timken Steel, one of the best case carburized steel makers in the world is sitting right here in Ohio, so you know you can't quite find that in China. So it changes the dynamic of case carb in China versus case carb in the United States. I think that's a pretty complex question at the intellectual level.

MR. CORKRAN: Okay. I do have one more request for detail on that particular issue and then I'll move off of it, but can you tell me does Timken in the United States use through hardened for the size range of products that we're discussing today?

MR. COUGHLIN: Yes, most of our through hardened production capability is actually outside of the United States. Over the last period of years, we have been putting in through hardened capability here inside the United States and in the product categories that you're referencing.

MR. CORKRAN: So just to tie some of the themes of questions that I've been asking together then, is that

part of the global sourcing conversation when it gets down to what I'm kind of characterizing as the second level. When it gets down to price is that one of the considerations whether you source domestically or outside the United States based on available capacity for through hardening?

MR. COUGHLIN: Well, once again, it starts with the engineer and the application and the decision of whether to supply a through hardened or a case carburized bearing. We bring in a lot of case carburized bearings into the United States too, in this category, so it depends on the dynamics of the situation. So we have different facilities around the world that produce both through hardened and case carburized because they are heat treat processes. You have different equipment and that kind of thing. So once again, we do both and it depends on the engineering and the application as we engineer it and believe the solution to what optimizes that application.

MR. STEWART: Mr. Corkran, I believe it's the case that in our petition a lot of the instances of while sales or price competition with Korean product, the information that we got from the Timken sales force of what they were competing against was case carburized product, not through hardened product. So certainly there can be issue with regard to whether a product is made with through hardened steel or through hardened process or a case

carburized process, but much of the competition that we've been experiencing we believe is case carburized and that's the way it's been presented by purchasers to the company.

MR. CORKRAN: Thank you. Thank you for the testimony, for the elaboration, and that you all very much for the panel and for bearing with me through a fairly technical issue. I appreciate it. Thank you very much. I have no further questions.

MR. ANDERSON: Thank you, Mr. Corkran.

I will just scan my colleagues here to see if they have any follow-up questions.

So my colleagues have very ably posed several important questions, so I'll let the questions rest. I want to thank you all for your testimony and answering our questions. It's been very helpful.

I would like to take a 15-minute recess here, if that's agreeable with everybody and then we'll reconvene just before 11:45.

A F T E R N O O N S E S S I O N

MS. BELLAMY: Will the room please come to order?

MR. ANDERSON: Mr. Schutzman and the panelists, welcome and please proceed.

MR. SCHUTZMAN: Thank you, Mr. Anderson. Respondents' first witness will be Brian Kreifels of Schaeffler.

STATEMENT OF BRIAN KREIFELS

MR. KREIFELS: Good morning. My name is Brian Kreifels and I am the Regional Sales Manager, Engineering Sales for Schaeffler Group, USA, based in Des Moines, Iowa. I have a Bachelor of Science degree in industrial engineering from Iowa State University and an MBA from the University of Baltimore. I have been with Schaeffler USA for over nine years.

In my current position, I'm responsible for all industrial sales activities in the Midwest region. This includes managing a diverse team of sales engineers and global key account managers, customer relationships, sales and budgets, and the implementation of sales strategies for growth. I am thoroughly familiar with the industrial market for tapered roller bearings in the Midwest with particular emphasis on the large OEM business and agricultural and industrial vehicles and machinery.

Since well before the Commission's Period of Investigation here, and continuing to now, majority of our customers have been seeking and obtaining sources of supply, other than Timken, in the size ranges that are affected by this investigation. Much of this was due to Timken having placed allocation limits on customers during times when the market was increasing, and delivery issues which caused OEM customer production lines to go down.

In 2011, two well-known US equipment customers independently approached Schaeffler privately and offered to provide a substantial investment and guarantee a sizeable annual purchase amount if we would build a U.S. facility for TRBs in the subject size ranges, because Timken was unable to supply their needs. This was at least one of the impetuses for the construction of NTN's plant in Macomb, Illinois, again demonstrating how customers continue to seek alternative sources of supply from Timken.

Schaeffler TRBs in this size range, as well as those of major U.S. producers, NTN, NSK, and Koyo, are generally competitively priced with each other. However, Timken TRBs historically have been priced considerably higher, really above market, given Timken's claims that its bearings are superior to all others, and its general refusal to be flexible with its customers in this regard.

Timken's bearings are not always superior.

Timken makes a good product, but so do we, and so do our principal competitors. In certain cases, our bearings test better than Timken's. Customers will tell you, there is not always a justification for Timken to charge higher than market prices, given the comparability of the product offered by Schaeffler and others.

Another important factor here is that, in or about 2010 to 2011, many large OEMs began moving to standardize most new designs to metric-size TRBs, rather than inch-size, which is Timken's predominant product. Given an approximately three- to five-year design cycle, new OEM products hitting the market in 2013 and thereafter, had a much more significant content of metric bearings which reduced the market for inch-size bearings.

Bearings in the subject size range have been a heavy usage product in the agricultural and construction markets. Beginning in late 2013 and early 2014, these markets declined materially from year to year. So significant were these declines, a 2016 OEM production levels for some products in these sectors were only 30% to 40% of what they were in 2012 and '13. This is another reason why the overall market for inch-size TRBs declined as well.

In some testing done at U.S. OEM customers, Schaeffler Korea product has outperformed Timken's items.

We can supply this information confidentially in our post-conference submission. The Schaeffler TRB sourced from Korea had a much better free-spin torque than that of the Timken product and as a result, the customer moved much of its business for this bearing from Timken to Schaeffler.

We have had multiple customers request quotations for all Timken bearings they were currently purchasing because they were interested in removing Timken from their supply base. One customer told me that the company's last long-term agreement with Timken was the worst thing they could've done. We will supply the staff with the name of that customer in our post-conference brief.

Another reason OEM customers have difficulty dealing with Timken is because Timken sells directly into the customer's aftermarket. Timken publicly publishes part number interchanges from OEM part numbers to Timken part numbers so the end user can purchase replacement bearings directly from Timken, rather than through the OEM's authorized channels. Schaeffler does not do this, and to my knowledge, neither do Koyo, NTN or NSK. That concludes my remarks. I would be pleased to answer any questions you may have. Mr. Schuster?

STATEMENT OF HARALD L. SCHUSTER

MR. SCHUSTER: Good morning. My name is Harry Schuster and I'm the Director of Sales for Transmission

Applications and Chassis Systems for Schaeffler Group, USA, Inc. based in Fort Mill, South Carolina. Schaeffler Group, USA, is part of the Schaeffler Group, one of the premier bearing manufacturers worldwide.

Schaeffler Bearings have sold in virtually every country in the world under the INA FAG brands. I have been with Schaeffler Group and its predecessor company and a bearing company for over thirty years. In my current position, I deal with all U.S. transmission manufacturers, including General Motors, Ford, FCA, which is Fiat Chrysler, Daimler, ZF, and tier one and tier two suppliers to North American OEMS.

Tapered roller bearings are a key component in transmission and chassis systems. I'm responsible for the quoting and pricing of tapered roller bearings for transmission chassis and related applications with these customers, including all the price discussions and negotiations and the implementation of new programs.

We also coordinate and schedule the importation of tapered roller bearings from South Korea and the warehousing and shipping of those bearings to our customers. Prior to 2010, Schaeffler Group, USA had relatively minimal sales of tapered roller bearings to automotive OEMs.

Over the next few years, more and more automotive customers began approaching us for quotes and

eventual orders for tapered roller bearings, principally because of Timken's "fix it or exit" strategy. I can provide the names of these customers to the staff in our post-conference brief.

The "fix it or exit" strategy was Timken's answer to underperforming product sectors. It is documented in Timken's 2010 annual report and later reports as well. In other words, if you cannot get the underperforming sector to perform, get out of it. And that's what Timken did.

As a result of Timken's exit from some of these tapered roller bearings sizes, Schaeffler Group, USA was approached by multiple U.S. automotive customers to fill the gap, and was awarded its first OEM contracts for these bearings in 2010-2011.

We have been able to maintain and grow that business ever since, but it's not because of price that we get the business. It's mainly because of our technical expertise. Schaeffler is a premier producer and gets the business because it has a premium product and a good customer support.

It takes up to three years from its initial quotation to initial delivery for a bearing to become a component in an automotive product. Plus, there is the request for quotation, approval of quotation, sourcing decision and mass production approvals, validation testing

and approval, start of production and finally, delivery. Every bearing product that goes into an automotive product goes through this exhaustive validation process before it makes its way to the end product.

Once a company exits certain bearing lines and later decides to get back into them, it must submit to this process again. There are no shortcuts. And once a company decides to exit, it is especially difficult to break back into that product again, if only because new relationships have been developed in the interim, between customer and supplier that are not easily reversed.

In addition, there are further demands from the automotive OEM regarding annual price reductions and productivity and technical improvements which must be considered. So Timken would not be able to re-enter the market at the same price levels as when they exited pursuant to the "fix it or exit" strategy. This is what happened to Timken and it was its own strategy. Not imports from Korea that precipitated it.

It was in its fourth quarter 2013 SEC report, Timken reported that its mobile industry business units, which includes TRPs for automotive use, was down 12% related to the company's beforementioned marketing strategy for the luminary and the light vehicle sector. In full year 2014, it reported business in that segment off by 7%, driven by

the impact of planned program exits.

In other areas, Timken is losing business to other premier suppliers like Schaeffler for reasons other than price. We have received commendations from customers that the performance of our tapered roller bearing exceeds that of Timken. We can share these as well with the staff in Schaeffler's post-conference meeting.

Timken's position to exit certain lines in 2010, 2011, 2012, 2013 and 2014, continue to impact it to this very day. Customers who relied upon Timken's product at that time were devastated when Timken announced it would exit the lines. Of necessary, they found other suppliers and would not readily return to Timken for that reason.

Customers have long memories. They need to rely upon their supplier's steady supply in order to keep their factories running. And for these reasons, many of them will no longer single-source because they cannot afford to. Most automotive industry OEMs will double and even triple-source key tapered roller bearings. It is a strategy that makes sense.

Regardless of what happens in this investigation, those customers will never return to single-sourcing with Timken. They cannot get bearings from South Korea, they will simply get them from other country's sources. Thank you for your attention.

STATEMENT OF JOHN H. DIX

MR. DIX: Good morning, Commission staff. My name is John Dix. I'm president of Iljin, USA, which is based in Novi, Michigan. We are the wholly owned marketing affiliate of the Iljin Group, whose Korean tapered roller bearing manufacturing operations are now referred to as Bearing Art Corporation.

I have worked in the anti-friction bearings industry for over thirty-five years, nearly my entire professional life. I have served as the President of Iljin, USA since 2012. Before I joined Iljin, I served as Vice-President and then Director of Automotive Sales at the Timken Company, which I joined in 1980. I thank you for the opportunity to testify today.

First, I am surprised to find myself here today. I am surprised for several reasons, which I would like to address. First, Iljin has had limited to no competition with Timken in the U.S. market with respect to tapered roller bearings, and to my knowledge, has not taken any measurable sales from Timken.

A very strong indication of this is the Commission's six pricing products. My lawyers informed me that Timken likely had months, if not years, to identify these six products for pricing comparisons that represent products Timken cares about, and which they think

demonstrate how they have been injured by the Korean imports.

We have received our questionnaire response. We do not sell any of these products in the United States market, not one. In fact, our factory in Korea does not produce any of these part numbers. The result is not very surprising to me, because Iljin generally does not compete with Timken for business in the United States.

In fact, I was surprised at how little we run into Timken when dealing with our customers. The reasons for this are simple. The major focus of Iljin's tapered roller bearing business is in the automotive sector. As you know from our importer's questionnaire, we sell only to a very few limited number of automotive companies and auto parts manufacturers.

Timken, on the other hand, strategically and openly chose to abandon the automotive market nine years ago. In 2008 when Timken saw the auto industry declining, Timken's CEO publicly stated that it was pursuing that what it notoriously referred to as a "fix or exit" policy. That led to the abandonment of the automotive sector.

The philosophy of this "fix or exit" policy was that either automotive industry customers would accept huge price increases or Timken would not serve the sector. As a result of this policy, Timken raised its prices

significantly, as much as 20% to 40% to improve its profitability and as a result, lost a lot of auto business.

Thus, between 2008 and 2013, Timken effectively abandoned the auto industry, leaving the auto industry customers bitter and creating an opening for tapered roller bearings that was filled, mostly by Japanese companies at the time. While I would get into more details in a moment, Iljin entered the U.S. tapered roller bearing market well after Timken abandoned the sector. As a result, when it finally entered the market, most of the business Iljin gained was in competition from foreign competitors. As our pricing data suggests, we seldom encountered Timken or took business from them.

Around 2014, however, when the auto industry started improving and when there was a drop in oil mining and industrial demand, in which Timken has a large market presence, my understanding is that Timken strategically decided to get back into the automotive business it had abandoned years before. In fact, I understand that Timken placed its auto business under an entity called Mobile Industries that covers the construction and industrial segments which of course are now suffering.

Even with Timken's re-emergence, Iljin has heard of only a few instances where we compete with Timken. I generally know either the time or after the fact who I'm

competing with. In fact, we can only identify one instance where we won a small piece of business, about $3 million that previously went to Timken, a miniscule amount of Timken's now profitable business. Timken is now a highly profitable company. The stock price is almost at record levels. And their auto business appears to be doing well, as reported under their Mobile Industries Group.

Finally, Iljin has a tiny presence in the global and U.S. markets given that we have just begun tapered roller production in 2014, and that we focus on a very narrow range of specific products and applications for specific companies in which our company has expertise.

As a brief background, Iljin has been in operation since 1978. Expanding upon Iljin's forging activity, it entered the anti-friction bearing industry since at least 1994. Iljin's bearing work has grown organically due to the growth of the Korean auto industry, which remains a critical and primary customer for Iljin in Korea and around the world.

Relatively speaking, tapered roller bearings, as a subset of our bearings work, is a new and small business for Iljin. Iljin only expanded into the production of tapered roller bearings recently. This is when Iljin hired me to manage the business. It took a number of years to produce.

Our plant launched in 2013 and we started production in 2014. Thus, Iljin was starting from almost zero in 2014. This is why our growth figures, including production and shipments, may appear relatively dramatic over the past few years, compared to our prior performance. Further, must of the growth of our sales is due to the Korean auto market as discussed, and aimed towards other non-U.S. markets such as Sweden, Mexico and China.

Still, Iljin remains a relatively small player in the global market for tapered roller bearings. 90% of our business is in wheel bearings and chassis components, not tapered roller bearings. Likewise, Iljin's presence in the United States tapered roller bearing, under 8" market is necessarily tiny compared to the overall market.

The reason for our limited presence reflects the nature of our business. We produce highly engineered precision products at high quality levels required by demanding customers like those in the automotive industry. Our tapered roller bearings are not commodities. The barrier to entry are also high. It takes two to three years to test, design, sample, and obtain final customer approval for our tapered roller bearing products.

In light of these considerations, Iljin necessarily focuses on a handful of automotive-related customers where it has a competitive advantage. Again, I am

surprised to be here myself. I cannot see how Timken can view Iljin or other Korean producers as a serious competitive threat. And production is mostly focused on accounts where the competition has historically been against other foreign imports, not Timken.

Indeed, as measured by the Commission's pricing products, we do not even produce any of the products they identified as important to the Commission's injury analysis. The fact is that the volumes of tapered roller bearing imports from Iljin and Korea are very small, a very small part of the growing market that we are focused on. And these market segments in which I mentioned Timken has, at least until now, expressed very little interest. So I thank you for your time and I'll be happy to answer any questions. Thank you.

MR. SCHUTZMAN: Mr. Schamp?

STATEMENT OF STEVE SCHAMP

MR. SCHAMP: Good afternoon. My name is Steve Schamp. I'm the Senior Purchasing Manager for Dana Incorporated, and I'm here today with our outside counsel Lyle Vander Schaaf.

I have a little over 25 years of diversified supplier management experience, including commodity purchasing, supplier quality, program supply management, contract manufacturing, and supplier operational excellence.

Prior to joining Dana, I worked at Vistion Corporation for over 10 years in a number of supply-related positions, most recently as supply performance manager. And prior to that I worked for Ford Motor Company for over six years, first as a process engineer, then as a commodity buyer, and finally as a purchasing specialist.

I spend a good portion of each day at Dana working to coordinate global bearing purchasing activities, develop global strategies for components including tapered roller bearings, and following developments in the industry and market as a whole.

Before I go too far into my prepared remarks, I'd like to provide a little bit of information about Dana. Dana Incorporated is headquartered in Maumee, Ohio, and was founded in 1904. It's a leading producer and supplier of Drive Line products, including axles, drive shafts, and transmissions.

Dana also produces and supplies power technology, including ceiling and thermal management products. Dana produces and sells Genuine Service parts for light and heavy or commercial vehicles.

Our products that use a tapered roller bearing include both drive and steer axles. These drive and steer axles are manufactured in the United States in our production facilities in Indiana, Kentucky, Missouri,

Pennsylvania, South Carolina, and Tennessee.

Overall, beyond just operations that use tapered roller bearings, our U.S. production operations are comprised of 22 plants that employ approximately 15,000 workers. Our customer base includes virtually every major vehicle manufacturer in the global light commercial and off-highway markets.

In order for Dana to even consider purchasing from a tapered roller bearing supplier, there's a minimum of 18 to 24 month time period in which we qualify and validate a given supplier and their specific parts. This process continues even after a supplier is qualified as we continue to monitor quality and product performance.

The process involves company-wide resources involving product engineers, applications engineers, program managers, supplier development engineers, and others conducting A to B testing, lifecycle test analysis, fatigue tests, line trials, and other analysis in an effort to confirm the suitability of a particular tapered roller bearing from a particular manufacturer.

This is required because our OE customers demand that we warrant our products to last up to a million miles, withstand extreme loads and road conditions, and meet increasing fuel efficiency standards.

I would like to address the issue of Timken

delivering a superior product for which it charges above-market prices. Timken represents its product as being the most superior in the industry. It maintains that its technology and its experience are second to none. It is often stated that its products cost more because of its excellent technical center in Canton, Ohio, and the overhead associated with this.

To a large extent, Timken tends to be a leader on new technologies. However, oftentimes with respect to Dana and its needs, Timken has offered a product that incorporates attributes that are not necessary for the application.

What I mean is that Dana does not always need the highest bearing tolerances, the best heat treatment solution, and the specialized profiles for many of its applications in which it uses tapered roller bearings.

Don't get me wrong. For some applications Dana demands the highest design attributes available in the market such as for head and tail pinion bearings which experience high loads in a vehicle. But for other applications such as differential bearings, we don't always need these same attributes. Yet, more often than not Timken had offered only these highest attributes, and unfortunately these are much more costly and results in a much higher priced tapered roller bearing.

In fact, up until recently Timken's U.S. production operations used primarily case carburizing as a heat treatment methodology, which creates a bearing that could withstand the most significant loads but is also significantly more expensive than producing a bearing using through-hardening as a heat treatment methodology.

Dana has pressed Timken over the last seven years to become more flexible because they were offering tapered roller bearings that many applications did not need. Indeed, Timken has heeded this advice most recently and just recently came out with a new marketing campaign of good, better, and best to present lower priced alternatives to the market for applications which don't necessarily need products designed to the ultimate standard, heat treatment profile geometrics or superior steel offerings.

In our view, this is an admission by Timken that they have been over-charging in the marketplace because in some cases they provided solutions which were over-engineered.

You've heard a little bit about Timken's activity with respect to 0 to 8 inch tapered roller bearings. Dana was hard hit by some of this activity in 2009 and 2010. In this time frame, at a time when Dana sourced Timken on the vast majority of its tapered roller bearings, roughly 80 to 90 percent, Timken passed along an enormous price increase

of between 20 and 30 percent virtually overnight on its bearings in exchange for Dana to secure capacity. As Dana did not have any qualified alternatives at this time, we had to pay the increase but were unable to pass this along to our customers.

However, we undertook a major strategy shift to begin the arduous and costly task of qualifying new suppliers for our commercial vehicle and light vehicle businesses so that we could return to market pricing and that we would never be put in a situation again of having one supplier hold our company hostage.

Within the commercial vehicle market, we chose Schaeffler after doing a comprehensive search of the marketplace as they had the best technology and experience in this size range and for similar vehicle applications.

Within the light vehicle market, we chose Schaeffler, Fersa, and Iljin for similar reasons. Today we source from a number of different suppliers, and they might supply us from various facilities in different areas of the world.

For example, we source from Timken and it elects to supply us in some cases the tapered roller bearings manufactured in the U.S., and some in India. We source from Schaeffler and it elects to supply us from its Korean, Mexican, and Austrian manufacturing operations. We source

from Koyo and it elects to supply us from both its Japanese and U.S. manufacturing operations. And we also purchase tapered roller bearings from Iljin from Korea, Fersa from Spain, and NTN from its U.S. operations.

For each of our different applications--meaning model of vehicle and position of tapered roller bearing--we have a unique supplier for that particular application. We do not dual source for a particular application.

We see the tapered roller bearing market as a global marketplace. If we were not to purchase from Schaeffler in Korea, we would not necessarily purchase alternatively from Timken or other domestic tapered roller bearing manufacturers.

The primary reason why Dana purchases Korean-origin tapered roller bearings, in addition to TRBs from other countries and regions, is to diversify our supply base enough so that no one supplier can hold Dana hostage by demanding large price increases without having more readily available alternatives.

Korean suppliers have been shown to have a very high level of product knowledge which gives Dana confidence in the robustness of their product, and their pricing is also reasonable given the global marketplace.

We have been asked why Dana sources from Timken in India rather than Timken in the United States. Dana

sources to Timken and other TRB manufacturers based upon a multitude of factors, including product knowledge, experience, design expertise, manufacturing, and product quality, total cost of ownership and management commitment, in addition to other factors.

For any given application, Dana provides a request for quotation to various suppliers based upon these factors. The chosen supplier then develops a quotation proposal which includes where they would recommend to manufacture the product. This would be determined based on many factors, including the proposed bearing, design solution, size of the bearing, overall volume, likeness to other product already produced, open capacity, and so on. But for a variety of reasons, the Korean manufactured bearings we purchase satisfy these criteria.

I can also confirm some of the comments discussed by others already concerning the reduction in market demand for certain size ranges of tapered roller bearings that may have adversely affected Timken's market share.

In 2015, Dana Commercial Vehicle lost a significant share of our business from our major customer Paccar. This reduced our volumes by about 45 percent in North America on our major axle offerings.

Additionally, in the second half of 2015 the industry volumes started declining significantly. So for

example in the Class A truck build, in 2015 a total of 323,000 units, whereas in 2016 builds were only about 230,000 units.

The product quality and quality control of our suppliers are of utmost importance to Dana. Because of the robustness of our reviews of a supplier's engineering capabilities, today we do not buy any tapered roller bearings from China for pinions or differentials in the U.S., despite that we could get a much lower price for these products.

We require any new supplier and any new facility of any existing supplier to pass a quality audit. And these audits include review of quality operating systems and special process audits which look at things like heat treatment, forging operations, and machining. If a supplier fails any of these, it cannot be a supplier to Dana no matter what price it offers.

Because of our experience with Timken's unexpected price increase in 2009, we now source differently. We diversify now among suppliers much more than we did, and we follow a long-term awards system.

In the United States in the last three years, on the light vehicle side we award business based on the life of the program, meeting the model and application of the vehicle. These life program awards can often last six or

seven years.

On the commercial vehicle side, we contract on a particular length of time with a program award, generally three, four, or five years. These contract awards have fixed levels of productivity which dictate price. So we negotiate on price at the beginning of the program, and price can only vary by a specified predetermined amount.

We are not alone in this regard. We understand that other tapered roller bearing purchasers operate in much the same way. Therefore, after award U.S. producers are insulated from any possible adverse price effects from imports.

There are other things that further insulate U.S. producers from any adverse price effects from imports. Price is only one factor in a multi-faceted commercial proposal that takes into consideration many other factors.

And before we ever get to the point of discussing prices for our contract, we first require potential suppliers to respond to a spec tender which requires that suppliers offer a design proposal which meets the specification tender.

This usually can take up to three weeks or beyond. And before we even consider pricing, our engineers consider whether the supplier meets all the requirements and what approach they include in their design proposal.

A supplier's design analysis is key. We need to be assured that the supplier knows what it is doing. Aside from price, other commercial considerations include freight cost, payment terms, warranty terms, delivery performance, delivery terms, step-down pricing over time, and others. We consider all of these factors in a supplier's proposal as a lack of performance in any of these areas could far outweigh any price advantage.

Additionally, since our experience in 2009 when we were so dedicated to Timken as a supplier, even if a supplier has the best commercial and the best engineering proposal, it is possible that Dana might not award it a particular piece of business because of our overall sourcing strategy of ensuring no single supplier again becomes too large.

The best price never wins a commercial award if all of these other factors that I've discussed don't line up as well. In my experience, other suppliers and OEs use the same rational in sourcing decisions. So Dana is not alone.

Thank you. I would be happy to answer any of your questions.

STATEMENT OF JAMES P. DOUGAN

MR. DOUGAN: Good morning. My name is Jim --- good afternoon. My name is Jim Dougan from ECS appearing on behalf of Respondents.

While the record is still being compiled for this preliminary phase, the evidence submitted to the Commission thus far weighs against a finding of material injury by reason of subject imports of TRBs.

My discussion will highlight certain conceptual points that we are developing in more detail for the confidential post-conference brief.

First with respect to volume effects. The way in which the scope of the Petition has been crafted, and the way in which imports of TRBs and their component parts are measured in the Census Bureau data, complicates the process of getting a precise picture of import volumes and apparent consumption.

There's been a change in HTS classifications over the POI. Some categories are measured in units, while others are measured in kilograms, and so on.

Given these complexities, Respondents submit that the Commission should measure imports and apparent consumption using value from the Census Bureau's statistics. This will provide the best way to get a full picture of all imports under the scope, both subject and non-subject. And there is precedent for this approach in the Commission's prior investigations of TRBs. I note, however, that measuring by quantity yields market shares of similar magnitude.

Finally on this point, we may differ on some of the specifics of the application but we think Petitioner's methodology for estimating the in-scope imports prior to the breakout of the HTS codes in July 2016 is a reasonable one and we adopt a similar approach, although it might be slightly different in application. And you will see that in post-conference.

As to the substance of the data, it is very telling that nowhere in the Petition is a clear, simple table that shows any estimate of apparent U.S. consumption, Korean import market share, and imports from Korea as compared to imports from other sources over the POI.

These comparisons also did not appear in Ms. Drake's slides from earlier this morning. This is not an accident. Because showing any such comparisons makes it difficult to claim that subject import volume and any increase in the subject--the volume or market share of subject imports is significant in the context of the overall U.S. market. Please see the slide one of my presentation.

The numbers have been redacted from the chart for confidentiality, but to give you a sense of proportion, the bright blue bars all the way at the bottom of the chart represent the value of subject imports from Korea. And not only are they far smaller than non-subject import sources, any increase is simply not significant in the context of the

market.

Moreover, if we do receive additional domestic producer data, the relative size of that bright blue bar will be even smaller. This cannot be said to be causing any adverse volume effects, or any injury that the domestic industry claims to be suffering.

Turning to price effects, the under-selling record, while confidential, provides compelling evidence of a lack of competitive overlap between domestic TRB producers and subject imports.

Petitioners witnesses claimed this morning that Korean producers have targeted certain high-volume part numbers to increase their presence in the U.S. market. Presumably they selected the six pricing products to capture what they believed to be these key high-volume products. And yet, as Mr. Dix testified, Iljin does not sell any of the pricing products in the United States, and the record as a whole shows limited overlap.

Given the lack of overlap, we submit that any under-selling observed is not significant, did not lead to any material changes in market share, and is therefore not indicative of any injury.

These data also support a finding of no price depression by reason of subject imports. And moreover, domestic producers' financial data provide no evidence of

price suppression.

A witness this morning testified that Timken has adjustment mechanisms in its contracts to reflect changes in raw materials' prices. The record evidence would tend to support that relationship. The absence of adverse price effects on the record makes sense, given the conditions of competition in this market.

As you've heard from the industry witnesses on this panel, TRBs are not commodity products sold on the basis of price. Every bearing product that goes into an automotive product goes through an exhaustive validation process that may take up to three years before it makes its way into the end product.

Mr. Schamp testified that prospective suppliers must make a design proposal that meets a specification tender before price is even discussed. Other non-price factors such as possible supply chain risk become important in Dana's decision regarding the contract award.

And even if all other factors in the proposal are equal, Dana or other customers may decline to award the business lest anyone supplier become too large a portion of their bearing supply.

At the same time, once the business is awarded it tends to be for an extended period of time, with allowances for only limited variations in price over the life of the

agreement. Thus, customers are not constantly going out to the spot market seeking competitive bids for their business, and are not switching suppliers on the basis of price. The responses thus far to the Commission's Lost Sales and Lost Revenue Questionnaires support this view of the market.

Finally, with regard to impact. There is no indication in the domestic industry's financial performance that it is suffering injury, let alone material injury, to begin with. Petitioners point to declines in production, shipments, and employment, but we believe that the record will show that these declines associated at least in part with the closure of certain facilities are attributable to reasons other than subject imports.

As you've heard from multiple witnesses on this panel, Timken made a strategic decision to reduce its presence in the automotive market prior to the beginning of the POI as it pursued its fix-it-or-exit strategy.

Notwithstanding Mr. Coughlin's testimony earlier this morning that maintaining high utilization rates are crucial for a capital-intensive business like TRBs to be sustainable, Timken knowingly walked away from large volumes of business because their customers were unwilling to accept double-digit price increases essentially overnight.

Timken was demonstrably willing to accept the tradeoff that resulted in a lower utilization rate, and the

Commission should keep this in mind when it weighs the testimony that it heard this morning about the importance of utilization rates for the sustainability of the business.

This strategic decision also meant that a higher concentration of its business would be accounted for by sales into the industrial market. But this increased concentration in the industrial segment would come with a price.

As Mr. Kreifels testified, the OEM production levels for some products in agricultural and construction markets were 30 to 40 percent lower in 2016 than they were in 2012 to 2013. Timken's higher concentration in the industrial segment meant that it was disproportionately exposed to the recent downturn in that segment.

This was a significant contributor to the overall industry's decline in production, shipments, and employment over the current POI. Nevertheless, notwithstanding this downturn, the industry's financial performance remains steady and strong.

Petitioners claim that Timken's planned closure of its plant in Alta Vista, Virginia, was attributable to the effect of subject imports. In its press statement at the time, however, Timken stated that it would be transferring this production to its Lincolnton, North Carolina, plant, and that it expected to add worker

positions at the Lincolnton Plant. The statement went on to say, quote, "Consolidating operations will further streamline the company's manufacturing footprint, making the most effective use of assets and resources given market conditions." End quote.

The statement does not mention imports, let alone subject imports from Korea, nor does the associated language in the company's 2016 annual report. Given the conditions of competition and the market context outlined above, this is not surprising.

In closing, we submit that the weight of the evidence will support a negative determination with regard to reasonable indication of material injury at this preliminary phase. All the points covered above will be discussed in more detail in the post-conference brief, using the confidential questionnaire record. Thank you.

MR. SCHUTZMAN: Mr. Anderson, that concludes Respondents' presentation.

MR. ANDERSON: Thank you very much to our panelists for being here and for your presentations. We will now turn it over to staff for questions and we will start with Ms. Martinez.

MS. MARTINEZ: Hi. Thank you for your testimony. I will again apologize if I'm a little disjointed or skip around. Let's start with the fix it or

exit strategy. Is this a term used by Timken or a term just that you gave it for your presentation?

MR. DIX: This is John Dix. Timken's CEO publicly announced this in 2008 for the marketplace. There's a strategy to either stay in the automotive market or greatly improve its product profit.

MS. MARTINEZ: So would you say prior to, as you've said, Timken choosing to exit the automotive market, would you say that the TRB industry was mostly single source or single sourcing from further supply?

MR. SCHAMP: Much moreso than today. Again, Dana's strategy was to source predominantly to Timken. Again, 80 to 90 percent of our tapered roller bearing sourcing was with Timken at that time. We had a great comfort level with them.

MS. MARTINEZ: But would you say that's indicative of the overall industry, or it's just for your specific experience?

MR. SCHAMP: I can't speak for the rest of the industry.

MR. SCHUSTER: Harry Schuster, Schaeffler. I mean I think -- well, going back to my testimony, Schaeffler didn't have any tapered roller bearings sales until 2010-2011 time frame.

That's when we started, and the driver for

that was that customers came to us and said we need another source, we need another supplier for tapers because of the fix it or exit strategy that's Timken put out. So I mean on the automotive side that I speak for, that was the whole driver for us to get into the market. Prior to that, we had almost no sales in North America.

MR. LEWIS: Ms. Martinez, Craig Lewis with Hogan Lovells. Just in answer to your question, we didn't coin the term "exit" or "fix or exit." In fact, it's pretty widely reported and we intend in our post-conference brief to provide you with the articles describing it. The company itself at the CEO level openly acknowledged this policy.

MS. MARTINEZ: Okay. So I want to make sure I understand the argument. From what I understood that you're saying is that Timken exited the automotive sector in 2008-2009 or chose to, and then that sort of triggered a sort of crisis for supply. So companies shifted strategy to having multiple sources of TRBs, and then when the auto industry turned around, Timken wanted to get back into the business. But it was a lot harder because of the structure of the multiple sources.

MR. LEWIS: Craig Lewis with Hogan Lovells. Yes, I think that's right, and I think that goes a very long way if not the whole way in explaining why we're here today, that this is an effort in my view to enlist the ITC to bring

them back into this market that they had left behind eight or nine years ago.

MS. MARTINEZ: So you would say that the auto sector is the primary market, even over the industrial and Agriculture sectors for this product, and that it would impact Timken's operations so much?

MR. SCHUTZMAN: Max Schutzman. I think we would say that the automotive industry is critical industry for tapered roller bearings. Automotive and industrial are the two main businesses, but certainly automotive is critical if you're going to be in this business.

MR. LEWIS: And this is Craig Lewis again. It's preferable to turn this to the market participants who know this better than I do, but my understanding from discussing it with our client and others in this industry, that you know, part of the reason for adopting that strategy eight or nine years ago was that automotive was a declining, important but declining sector for TRBs and industrial, the industrial sector was where they were seeing the growth opportunities, and now that situation has turned around.

I think we heard from Petitioners at least that their view is that demand is flat or declining in industrial, so now suddenly there's a growing interest in automotive.

MR. SCHUTZMAN: Max Schutzman. One other

point. As I mentioned in my opening statement, if you look at Timken's annual reports, they cite that their automotive business has been on the upswing in 2016, because of their rededication to this product line.

MR. DIX: Just a quick comment. John Dix. Since I live in Detroit and I have always worked in the automotive, as you go back to the '08-'09 time period, the number of vehicles built in the United States was about nine million. We had hit almost depression levels, that the market had dropped that much.

If you look at the auto industry today, it's healthy, it's good. We hit 17-1/2 million vehicles last year. I didn't do the math, but the auto business is probably up 60-70 percent compared to '08. It's a very attractive market right now.

MR. SCHUSTER: Harry Schuster, Schaeffler. Only one other comment or opinion. If you exit a business in automotive, you cannot get out right away, because as Timken said as well, you have to do extensive testing to get back in. So if you cannot exit right away because the OEM doesn't have another supplier, it takes up to three years to get back in or find another one.

So if Timken decided to exit in 2010, it could have been until 2014, and their annual reports reflect that, that it was this declining in future exit. So 2014 going

out, the home market is going down. Now another supplier comes in like Schaeffler. I mean we want to secure our investments as well, and -- as well sign a three year contract. So it would be hard to get back into the market.

MS. MARTINEZ: Okay, thank you. That's very helpful. I guess I'm also trying to reconcile this, the fact that Timken is -- you're arguing to Timken exited the auto sector, and that's why maybe their business is hurting, their TRB business is hurting. But then you're also arguing that your products don't compete with their products, and I guess I'm just trying to find the link for those two arguments.

MR. VANDER SCHAAF: This is Lyle Vander Schaaf, counsel for Dana. I think the reason they don't compete is because Timken elected to exit the auto sector, and the Koreans are heavy into the auto sector.

MS. MARTINEZ: Gotcha.

MR. VANDER SCHAAF: Unless I'm missing something.

MR. SCHUTZMAN: Max Schutzman. I think you'll see that with Schaeffler at least, there is limited competition. There is some competition with Timken for business, but it's limited. You can see that from our questionnaire response.

MS. MARTINEZ: Okay, thank you. I believe Mr.

Dix mentioned the growth of the Korean auto industry and how that has sort of triggered not just, you know, production of TRBs but other auto-related components. Can you talk about that a little bit more?

MR. DIX: Yeah. Hyundai has been an up and growing company. In 1978 they didn't exist. Today they build maybe seven or eight million cars per year. So Ilgin has been very connected with Hyundai. They are a partner in Korea. So we were driven into the tapered roller bearing business partly because of this big demand in Korea.

MS. MARTINEZ: So would you say, to talk about the Korean industry in general, would you say that for the TRB industry, is the TRB -- is it just the TRB industry that's export oriented and other auto-related components are more focused on the home market or how do you -- how do you respond to the argument that Korea is export oriented for this product, that it's so important to the auto industry, but then the Korean auto industry is very healthy and growing as well?

MR. DIX: Yeah. I'll try to answer your question, John Dix. Probably volume. When you get into the market segment, in our case the tapered roller bearing business was driven within Korea. It wasn't driven outside. It was driven within the Korean market. So in putting in capacity and things like that, most of that capacity is

pointed towards the domestic Korean industry. Am I answering your question?

MS. MARTINEZ: How do you respond to the argument that the Korean industry for TRBs is more export oriented? But then the auto industry in Korea is also growing, which would presumably need TRBs?

MR. DIX: Yeah. I think at the end of the day, again we're a start-up company. We started shipping in 2014. So we're brand new. Most of our production in Korea will go to the domestic source. It will stay within Korea. So in the exports aren't only to the United States. I would say right now we're probably shipping more to other countries outside of the U.S., if you look at our business.

MR. DOUGAN: This is Jim Dougan from ECS. One thing to point -- and these aren't necessarily inconsistent positions. So if the growth of TRB production in Korea was originally sort of ceded by the need to meet the demand of Korean auto producers in Korea, but then you have a situation in the United States where producers have been basically abandoned by the fix it or exit position that Timken followed, they need other multiple sources.

They need to go out and qualify additional suppliers all over the world, so both in the United States and around the world. So they're going to then go to the Korean producers who have developed this capability to serve

their own domestic auto industry, and pull some of their staff into the United States.

MS. MARTINEZ: So at this time, would you say that the Korean industry is export oriented or focused on the home market?

MR. SCHUTZMAN: Ms. Martinez, Max Schutzman. I refer you to Schaeffler's, and I can only speak for Schaeffler of course, but I refer you to Schaeffler's foreign producers' questionnaire response. You will see that the home market situation is extremely robust based upon the responses to that questionnaire for Schaeffler.

MR. LEWIS: And this is Craig Lewis. I just wanted to add two points. One, it's not clear to me what export oriented actually means. The majority, vast majority of Korean production is consumed domestically. So it's not as if we're talking about ten percent sold in the domestic market and 90 percent's exported.

I think the second point is this. As you've heard, Timken itself I think rightly prides itself in its success in exporting its products overseas. That's a normal feature of successful companies, particularly in an industry like this one where global sourcing is such a predominant feature. Automotive companies produce in multiple locations around the world, and so you would expect to see that I think in this kind of industry.

In other words, it's not -- it's a reflection of just the natural structure of the industry rather than some particular proclivity to export on the part of the Korean industry. I think the data bears that out.

MS. MARTINEZ: Thank you. That's helpful. Are there any other Korean producers, major Korean producers that we should be aware of that are missing from our data set?

MR. DIX: No. I think you have both of them. John Dix here. I think -- am I correct?

MS. MARTINEZ: And are you able to estimate the share of total Korean production accounted for by the two producers?

MR. SCHUTZMAN: Max Schutzman, Ms. Martinez. To the extent we are able to do that, we will provide that information in the post-conference submission.

MS. MARTINEZ: Yeah, thank you. Let's see.

(Pause.)

MS. MARTINEZ: So Petitioner this morning said that the imports coming in from Korea are, the vast majority is the lower diameter TRBs, the within-scope TRBs. Would you say that's indicative of the Korean industry as a whole for TRBs? Are they only exporting the lower diameter or are they producing larger diameter?

MR. DIX: This is John Dix. We don't produce

in that range in Korea, and certainly not importing into the United States. So over eight inches is not in our scope.

MS. MARTINEZ: And would you say that's characteristics of the Korean industry?

MR. DIX: I'll let Schaeffler answer that, because we don't participate so --

MR. SCHUSTER: Harry Schuster, Schaeffler. I mean I can only speak for the automotive side, and on the automotive side we rarely have larger diameters than four inches. So you get over there, but the majority is below four inches.

So 100 millimeter, that's the cutoff point. So I'm sure there's a domestic market in Korea, because they are a large industry producers as well. You have companies like Samsung and stuff like that. But that has to be answered by Schaeffler Korea. So we can provide that in the --

MR. DIX: Yeah, this is John Dix. I just know because I study this, but the large tapered roller bearings in Korea are imported from other companies and other countries. So that's how Korea is a big user of that product. It's imported.

MR. KREIFELS: Brian Kreifels, Schaeffler. I can just speak from the industrial side for my region, and nothing that I've been quoting out of our Korea facility has

been over the 160 millimeter size range, which I apologize for speaking metric, but that's particularly what I deal with. But it's about six to seven inches. If we get larger than that, again for my personal experience is we start to evaluate other countries, including the United States.

MS. MARTINEZ: Thank you. Would you say that the U.S. is your primary export market? Who are your other export markets?

MR. SCHUTZMAN: Max Schutzman. I'm not sure that's a question we can answer in a public forum. We will provide that information.

MS. MARTINEZ: That's perfectly fine.

MR. SCHUTZMAN: In the post-conference submission.

MS. MARTINEZ: Thank you. During your testimony, I think there was -- you talked a lot about how Korean product was often higher quality than Timken's. Is that reflected in different production processes?

MR. KREIFELS: Brian Kreifels, Schaeffler. I spoke of one instance where we did outperform a Timken product, and in that instance in my personal opinion it was related to a process, and we can provide some further detail on that in the post-conference.

MS. MARTINEZ: Yes, that would be helpful. Thanks. I think that's all I have for now. Thank you very

much.

MR. ANDERSON: Thank you Ms. Martinez, and now I'll turn it over to Mr. Soiset.

MR. SOISET: Thank you. Good afternoon and thank you for your attendance. We appreciate your assistance with us today. I had a couple of, I guess, foundational issues, maybe primarily for counsel at this stage. But just wanting to get your positions and a few issues that we address in our opinion, the first being negligibility. Are any parties here with a need to contest that, or you can also just hold your position until later? But I'm just curious on what your position is on that.

MR. LEWIS: This is Craig Lewis. At least speaking for ourselves, I think we'd like to hold that issue until we see more of the data, which is still coming in as you're aware.

MR. SOISET: Okay. So I assume they speak for all? And then domestic like product, do you also intend to contest that?

MR. SCHUTZMAN: Max Schutzman. We most certainly do. As you would surmise, many of the questions this morning by the staff to Petitioners panel were directed to the like product issue. The Petitioner addressed extensively the like product issue. Clearly, the like product issue is just that, it's an issue.

The China case includes everything, all tapered roller bearings, finished and unfinished, and Timken argued in that case and in the sunset review that that was the appropriate like product. This case is much more limited and we think there's a major issue there. We will address it in the post-conference brief.

But I'm not sure you have the sufficient information to make that determination in the preliminary based upon the data you've solicited in the questionnaire responses, and it may well be if the Commission decision is that like product should be expanded, that may well be a basis for a negative determination on this particular petition, having taken that position at the petition stage.

In the alternative of course, as you've done in other cases, you can defer consideration of that issue until the final and we can address it much more extensively at that time with a more comprehensive questionnaire process. But yes, we think that this is a problem here and that the like product should be expanded, coordinate with what you have in China.

I should note that in the Japan orders many centuries ago, the initial Japanese order was four inch and under, and the subsequent Japanese order tied up the rest of the Japanese product, so that the two orders included everything the way the Chinese order does. So that would be

authority for doing that as well.

MR. LEWIS: This is Craig Lewis. I'd definitely like to add a few comment on the like product issue. We're in agreement that it should be expanded. In fact, I'm somewhat baffled by the position that Petitioners are taking here or attempting to take here. I note Timken is renowned for its engineering skills. I think it seems to be applying engineering skills to the like product definition in this case.

A couple of legal points. First, there is an implication in Mr. Stewart's testimony that like product, the way it's approached legally is you look at what the scope of the imported products are, and then the question becomes do you further subdivide that or not, sort of implying that expansion is not an option under the statute.

Of course that's not true. I can think just off the top of my head a case involving greenhouse tomatoes from Canada, maybe an odd comparison with this industry, but it sort of aptly illustrates this, where the definition for scope purposes was quite narrow. The Commission applying the traditional six factor test examined the issue and ended up including in the domestic industry not only greenhouse manufacturers, which were the producers of the identical product to what was being imported, but also all the field-grown tomatoes in the industry.

That was a tremendous expansion of the like product and one that had a decisive impact on the outcome of the case, blowing apart import penetration and market share figures, etcetera. So I just want to clarify that any notion that the only direction that the Commission's analysis is directed towards as further subdividing the imports is just false and is belied by the statute and by precedent.

Speaking of precedent, you know, there's a long history of these orders, dating back as we heard mid-80's and even back into the 1970's. With one limited exception, it had some unusual circumstances that were alluded to involving bearings from Japan. There's never been an argument that I'm aware of from Petitioners until this morning that the TRB market should be subdivided between bearings that are in housings and those that are not, and based on arbitrary -- well, I shouldn't say arbitrary but specific diameter dimensional lines.

The Commission has a well-established practice of requiring clear dividing lines, and I think if you want to see an argument and understand the factors that compel including these excluded products within the domestic like product, I forget which of the staff mentioned looking at the transcript from the sunset review, the third sunset review for China, but I think you'll see it laid out very

cogently there.

So the question is, you know, what would justify a departure in this case, particularly a departure that's going to be advocated at the same time that the Petitioners are continuing to advocate for a completely different like product in the parallel sunset review.

I can understand in making that argument that Petitioners want you to focus on the difference in scope, as if that is the key and gives you the out to reach a different outcome. But the scope is not the deciding factor for you. You have six factors. They're clearly defined, well-established, utilized in every case, and you have to examine each one of those.

Petitioners are their own worse witness on that. With regard to each and every one of those factors, they have consistently argued up until today that there are no clear dividing lines between the products that they're now telling you should be separated. You may ask yourself why.

I didn't mean to be flippant in referring to being engineering, but I think that is really, from a legal standpoint, what's going on here, is that this isn't driven by what the facts compel as an outcome, but as in what's convenient for Petitioners, in order to make what's already a very small market share for Korean imports even smaller.

So that's maybe more than I needed to say right now, but we'll address this fully in our post-conference brief. But we strongly advocate that the scope be as it is in the China case.

-- Like product, I should say.

MR. VANDER SCHAFF: You know I was counsel to the Respondents in the sunset review in 2012 and we represented a number of wheel hub unit manufacturers in China who were surprised when Commerce determined that the scope of that order covered wheel hub units and they retained me to argue that wheel hub units should be a separate like product and they should get a separate injury decision in the sunset review in 2012, the third sunset review.

We presented our arguments and you can obviously disagree and the Commission relied on Timken's evidence and arguments to decide that issue against the wheel hub manufacturers in China. You essentially disagreed with my argument that wheel hub units should be a separate like product. It really troubles me that now Timken comes in and completely flips on that position and you'd be hard pressed, Mr. Soiset, to find a legal issues memo that doesn't cite to that line of precedent where the domestic industry, the bearing manufacturers sued the Commission in the first anti-dumping review on ball bearings.

The CIT and the Federal Circuit both agreed with the Commission that the Commission is not bound by the scope of the merchandise when deciding like product. It's a well-cited, frequently cited piece of precedent, but in the sunset review representatives of Timken stated that on like product three times you have looked at and decided that "The like product is that which is originally found, which include housed and packaged bearings such as wheel units."

Well, of course, the Commission again followed that line of precedent, so there are four times that they have done this. They said, "The definition of a continuum from a dictionary is what you typically call it, which is no clear dividing lines." And they stated "There are no clear dividing lines, never have been, never will be in terms of the product line." Now they're flipping on that and I'm deeply troubled by the switch. They can't have it both ways, especially, when there is the pending, concurrent investigation on this issue.

MR. SOISET: Well, thank you. We can look forward to a lot of argument on this in your post-conference briefs. And while the industry witnesses are here, I'd also like to hear from them maybe about the 8-inch dividing line. Timken has argued that this is recognized in the industry that 8-inches can sort of lead you to different products in terms of where these are manufactured, their end uses, the

customers' channels of distribution. Could some of the industry witness state whether they agree with that?

MR. DIX: As the bearing gets bigger, the equipment gets heavier. That's really all we're talking about. So if you look at a small axle that goes on a small car, you have a small bearing. If you look at a huge axle that goes on a caterpillar tractor earth mover, it's just a bigger bearing. So in effect, I think Timken has picked this 8-inch cut off line because that fits with their manufacturing scope. Certain plants go up to 8 inch. Many other manufacturers don't use this 8-inch as any barrier, so the bigger the equipment the heavier it is. It's the same product. It just gets bigger from my perspective. Thank you.

MR. SCHUSTER: So again, for the automotive side, when you look at a transmission, you usually have below 4 inches. Occasionally, on the axle side you have up to 8 inches, but it's the smaller side of the business. So I don't know where to draw the line. I think it's a fine line you have, at least on the automotive side and it's well below 8 inches.

MR. KREIFELS: Again, I'm speaking from the industrial side and speaking with knowledge from the market. I cannot speak to production. I'm not a production expert. I've never worked in the production side in the bearing

world. However, on the industrial side, a very key sales market was the 4-inch to 8-inch size range on these TRBs. That was consistently the size range that I was being asked for. It was consistently the size range I was asked for, from one customer asking that at capacity. So my opinion is it seems it was conveniently picked to target a key market and would be more based on the market, less on production. Again, keeping in mind that I have very limited knowledge about 8-inch production versus 9-inch production versus 10-inch, but it definitely seems it was a key market on the industrial side.

MR. SOISET: Okay, thank you very much.

And what about wheel hub units? Is this something that you might actually agree with the Petitioners that it should be a separate domestic-like product?

MR. VANDER SCHHAAF: I can tell you I played that argument and I lost when the Commission decided it against me.

MR. SCHUTZMAN: Perhaps Mr. Cockran will remember, but I don't know that anyone else will. In the original AFBs Anti-Friction Bearings case that did not involve TRBs, but there were extensive arguments on the ball bearing side about wheel hub units that were made with ball bearings as opposed to tapered roller bearings. There are both. And the Commission and the Commerce Department both

decided that it was one continuum, even though it was looked different. It might look different, but it's basically a housed bearing, so that's been the history of wheel hub units, to our chagrin, because we argued otherwise, but lost every time that issue was raised, as Mr. Vander Schaaf has indicated.

MR. LEWIS: I would agree with that. And I think this is, again, an area that's got a long history and precedent to it. And if nothing else, that puts the burden, I think, on those who would argue for a radically different approach in this case to demonstrate that there's been some technological or market change or something else with respect to those six factors that could reasonably lead to a different conclusion and I'm not hearing that.

MR. SOISET: So I'm hearing that for this proceeding, at least, your argument is that you want an expanded domestic-like product, including the hub units. Yes?

MR. LEWIS: Yes.

MR. SOISET: I think just the more information we get in argument from you the better in your post-conference briefs. This is something that we generally don't like to punt to the final phase. So to the degree you can provide information on the six factors for that, any argument supporting that that would be great.

And finally, unfinished parts, I think, is another category of products. It's been a little different in some past scopes, but they have been included in some. Do you have any position on that?

MR. LEWIS: I was speaking for myself. That's one I think I need to speak about. I'm not sure I have a position for you today. I'd be happy to address it in the post-conference.

MR. SCHUTZMAN: We will address it in the post-conference. I'm not sure how we come out on unfinished. I have to look at some of the other orders. Thanks.

MR. SOISET: The last question for me would be to domestic industry. Do you intend to challenge any parties to be excluded from domestic industry?

MR. SCHUTZMAN: At this stage, we don't have information that would allow us to do that, so the likelihood is we will not.

MR. LEWIS: Same position. Unless something emerges between now and Monday, we have the same position.

MR. SOISET: Alright, thank you very much. No further questions from me.

MR. ANDERSON: Thank you, Mr. Soiset. Ms. Von Kessler.

MS. VON KESSLER: Hi everyone. Thank you for

being here this afternoon. My questions are kind of just to see where you land on some of the statements from this morning.

So since 2014, we've talked about prior to our period of investigation with regard to demand in the auto industry, but would you agree that demand has been flat or declining since 2014?

MR. DIX: You mean in the auto industry?

MS. VON KESSLER: Either auto or overall, the demand for GRBs has been --

MR. DIX: No. The auto industry has been growing. And if you look at the price of oil, 2012/'13 was $100 a barrel. It went to $40 a barrel. It decimated the portion of the industry. The mining industry also dropped. So we're in a situation right where auto is good, strong and many of the industrial markets, including railroad, are down.

MS. VON KESSLER: Anybody else?

MR. SCHUSTER: I would agree with that. I mean automotive was down 2007, 2008 during the recession and since then climbing up from 7, 8 million to 17 million car production in North America, so we're flattening out, landing out at that level it seems like not, but automotive is definitely up.

MR. KRIEFELS: During the same timeframe that we

saw the automotive volumes increase; we saw a dramatic decrease in the industrial market. As I stated in my testimony, the large end users of this size range, at least again that 4 to 8-inch are predominately in my territory and they're the ones where I was referring that their current production levels in 2016 were 30 to 40 percent of what they were in the 2012 timeframe. So overlapping with the increase in automotive, there was a dramatic decrease in the demand on the industrial side.

MS. VON KESSLER: Okay. On to kind of contract incorporations and clauses, do you incorporate similar material recovery clauses in your long-term -- in these three-year contracts?

MR. SCHUSTER: Yes, we do.

MS. VON KESSLER: Okay. And what about the resourcing clauses?

MR. SCHUSTER: I would concur with what the colleague from Timken said. You try to avoid these clauses, but our customers call them competitive clause, so it's a customized agreement that you have to work out.

MS. VON KESSLER: Okay.

MR. DIX: I agree. Basically, Brian Ruel mentioned that every contract is different and it's true. Some allow material. Some have competitive clauses. We all try to fight that clause. I'll be frank with you. I rarely

see that. I rarely see losing because of the competitive clause. Typically, customers use that as pressure to try to renegotiate, but rarely does anyone lose business.

MR. KREIFELS: Again, from the industrial side, our contracts I would agree with Mr. Schuster and my colleague from Timken said this morning.

MS. VON KESSLER: Thank you. And would you agree that there aren't substitutes once an application is engineered? Earlier, we were discussing once an application is engineered, then a TRB will be used. Would you agree with that or are there instances where an application can be engineered, but a different bearing could be used?

MR. SCHUSTER: So unless you have validated two customers -- I'm sorry, two suppliers through the full validation process and only bring one into the mass production you don't have a chance to bring on a second one because of all the validation testing. And then we were talking about platforms this morning. One prime example is you have a transmission with a -- drain in there. You have to adjust calibrated transmission with each engine configuration in each vehicle it goes into, so you have multiple tests that you have to go through and it's a long timeframe. It doesn't mean you can't compress it, but it costs a lot of money to do so.

MS. VON KESSLER: Okay, so it's kind of

prohibitive to try and use a different --

MR. SCHUSTER: It can't be done, but it's not easy, unless you validate somebody right at the beginning and then, yes, you could bring on a second one faster.

MR. KREIFELS: And I think you're asking are you able once a tapered roller bearing is designed in you can't put a ball bearing in there or a needle bearing or a cylindrical is what you're asking; is that correct?

MS. VON KESSLER: Yes.

MR. KREIFELS: Alright, there's always an exception to the rule, but in my experience you are correct. One you design in a tapered roller bearing into a specific application it's going to remain a tapered roller bearing.

That being said, it's possible when you make changes to the system as a whole. I'll use a transmission as an example. Given the new regulations and drive for fuel economy and efficiency, reduction in friction has been a large goal of many OEMs, especially, in the transmission market.

Tapered roller bearings, factually, have higher friction than ball bearings. We have many customers who have put forth concerted efforts to redesign, probably more than a tweak, but it's a next generation transmission from the one they started with. So they do have a base model, but the next generation they've put a lot of concerted

effort towards replacing tapered roller bearings with ball bearings for the friction advantages.

You cannot just swap them out. There are other system changes, as a whole, that you have to do to accommodate a different type, but it is possible through a design cycle process, which are typically lengthy, multiple years for sure.

MS. VON KESSLER: Okay.

MR. SCHAMP: I'd just like to agree what Mr. Kreifels and Mr. Schuster had said. I mean it's really the impetus for the Dana strategy to incorporate long-term agreements on the light vehicle side because of the prohibitiveness of changing within from one taper to another taper within the life cycle. That the cost and the timing associated with that is so much that it really necessitates having a long-term agreement for the life of the program life cycle, which can be five, six, seven years.

On the commercial vehicle side of the business, however, those applications can be in production for 15 to 20 years. And so you know oftentimes we would like to qualify possibly two suppliers up front so that we do have options. That doesn't happen so often because of the cost, but that's maybe a different strategy that we take on the commercial vehicle side because of the length of the program and you do want to have some ability over time because

market shifts to have the flexibility of potentially changing within that life cycle.

MS. VON KESSLER: Okay. And what is the cost of qualifying somebody over this -- generally.

MR. SCHAMP: When we looked at it, on average, it would be about roughly 200 to $300,000 and roughly two years of testing, on average.

MS. VON KESSLER: Do other agree with Kenneth.

MR. DIX: I agree with everything he said.

MS. VON KESSLER: The last question, earlier Petitioners stated that while parts of different sizes are not interchangeable, TRBs with the same part numbers are interchangeable. Would you agree with that?

MR. KREIFELS: It's a tricky question and I hate to give you the "it depends" answer, but it kind of does depend. If you say -- and it really depends on your definition of "interchangeable." If you're strictly looking at bore size, outer diameter size, and width, yes, it's interchangeable. You can put it into the position.

That being said, there are a lot more factors. I go into the overall performance, such as even stated this morning, material, profiling, finishing processes, heat treat. So if you're looking for interchangeability from those standpoints, a simple same part number will not always be the same from those standpoints.

MS. VON KESSLER: Okay, that's very helpful.

MR. SCHAMP: I would like to agree with that. And again, it's very application specific. So even if the size is the same, that whole testing cycle that we talked about before is still going to need to happen for a new bearing.

MS. VON KESSLER: Okay, great.

What I'm gathering from this is people aren't necessarily going out to Auto Zone and picking up one versus the other.

MR. KREIFELS: And I apologize. There was one more point I wanted to make on that. I think you could ask any bearing manufacturer, even the Petitioner this morning, and none of us recommend interchanging our cups and cones with competitors. So even though a cone part number and a cup part number from one bearing company, none of us recommend taking the again equivalent part number designation from a different one and putting it together. So from that standpoint -- that's going be consistent across the board. I would submit that to support the claim that it's more than just a part number interchangeability.

MS. VON KESSLER: Okay, great. That's very helpful. Thank you.

MR. DIX: Just one other comment, if you went to Ford or General Motors with an exact part number, for

example, that Timken had, they would go through a two-year process before they approved you. There's no drop-ins.

MS. VON KESSLER: Okay, great. I think that's all I have. Thank you.

MR. ANDERSON: Okay, thank you. Mr. Yost.

MR. YOST: I have no questions for this panel, but I would like to thank you all for your very valuable testimony.

MR. ANDERSON: Mr. LaRocca.

MR. LAROCCA: It's not so much a question as a request. In your post-hearing brief, could you please describe the validation in testing process a little bit? That way we can get maybe an example of what the certification looks like at the end would be very useful.

And again, I just want to thank you guys for your time for coming here. It's very useful for us.

MR. ANDERSON: And Mr. Corkran, your turn.

MR. CORKRAN: Thank you very much to this panel for your presentation, which has been very helpful.

I was wondering if I could get a little bit more detail on certain aspects of the testimony. For sales to automotive customers, are those typically in a bid environment?

MR. SCHAMP: I would say, yes, from our standpoint very much so. That we solicit quotes from a

series of predetermined suppliers who've already been qualified to even submit a bid in the first place and then we issue a specification tender, which has the overall dimensions, the stresses that the bearing's going to see and other factors and then the various suppliers would propose design and manufacturing solutions to meet that quote.

MR. CORKRAN: Okay, my next question, and maybe Mr. Dix you might be the one to address this, is as part of the fix it or exit strategy, did -- well, first off, can you provide a little bit more information on the "fix it" part. Almost all the testimony today focused on the exit strategy, but the fix strategy and related to that did Timken cease bidding on opportunities or did it cease attempting to match prices prevailing in the marketplace?

MR. DIX: A very good question. The "fix it" was fix the business. At the time Timken Automotive business was not that favorable, so very aggressive. I've never seen anything like. The "fix it" was fix now. So it meant rising prices a very large percentage in the marketplace. So that was more fix the business.

Obviously, the exit, so if Timken could not get the large price increase, then they had leveraged themselves in the marketplace that they could actually leave the business. They had such a strong industrial, aerospace,

very diversified business that they were able to exit. Very few companies could do that. Iljin couldn't do that. Schaeffer probably couldn't do that, but they had enough power in the marketplace that they could demand very high prices. Some customers took them. Many didn't. Many were left bare, like I said.

What was your other question; you had a second part?

MR. CORKRAN: In terms of Timken's participation, did they cease bidding for auto applications or did they cease attempting to match prices?

MR. DIX: I think they continued to quote when customers would let them. They were removed from several large customers that refused to do business with them any more, so in that case they didn't bid because they weren't asked, but I think, as a strategy, they continued to bid when allowed. I hope I answered your question.

MR. CORKRAN: You did because I was trying to match the characterization of abandonment with what I thought I was reading from the 2012 case where the Commission talked about some of these issues and they talked about it in terms of Timken facing a fundamental choice about matching prices or ceding market share, so that's what I was really looking for.

With that, I have no further questions. Thank

you.

MR. LEWIS: Let me just add one thing, though, it's important is that Korean imports were not in the market at that time and I think it's important to bear that in mind as well.

MR. CORKRAN: Thank you. I appreciate that. And normally, I wouldn't be going back to 2012 or 2009, but that seemed to be some of the flow.

MR. LEWIS: We raised it too.

MR. CORKRAN: Thank you very much.

MR. ANDERSON: Okay, thank you, Mr. Corkran. I just want to see if our staff have any follow up? Okay, Ms. Martinez.

MS. MARTINEZ: Hi, I just had one more follow-up question for the Schaeffler witnesses on the Foreign Trade Zone discussion this morning. Do you agree with Petitioners' characterization of what goes on there or do you have anything to add?

MR. SCHUTZMAN: I know a little about that. Unfortunately, much of the information related to Schaeffler is confidential regarding that Foreign Trade Zone, but the purpose of the Foreign Trade Zone is it's a duty deferral process. So if you bring merchandise into a foreign trade zone in the United States, you don't pay duty on it. Even if it's subject to a dumping order you don't pay duty on it

at the time you bring it into the foreign trade zone, but that's the purpose of bringing the merchandise from abroad from other countries into the foreign trade zone in the United States. It just defers the duty until you bring it out.

So if you were to enter it into the United States, you would have to pay whatever duty is applicable or you could export it. And if you export it, there is no duty consequence as a result, but there are various strategies that different companies employ in moving product in and out of a foreign trade zone. And if that's something you're interested in, we'll address it in the post-conference brief.

MS. MARTINEZ: So there is no further processing. Would you say that the majority of what's being brought into the Foreign Trade Zone is brought to the U.S. market for consumption or it's been re-exported?

MR. SCHUTZMAN: Unfortunately, it's a question I cannot answer in this forum, but we'll address it in the post-conference brief.

MS. MARTINEZ: That would be great. Thank you. That's all I have.

MR. ANDERSON: Okay, thank you. And I just have maybe two really quick follow ups, so I appreciate your patience.

Given the emphasis from this panel on the shifts in the market and the demand changes and so forth, and we heard some of that this morning, I would just invite you maybe in a post-conference brief if you could put any numbers on that. I know we're benefited by having some particular industry experts here in the marketplace and so in your post-conference brief if you could talk about some of these particular trends over the POI in industrial, automotive, and so forth that would be very helpful to expand our record on that.

And then my last question, which could also be post-conferenced briefed, is you talked a lot about customers diversifying their sources so they are no longer in a single-source situation. Is that particularly in the automotive sector and just for your companies or did you see a trend in the larger taper roller bearings market with that? That's part one. And then part two is did you see a trend in reverse where you saw are there companies out there that were multi-sourcing and because the economics of multi-sourcing it was better to consolidate or reduce the number of options that they had. And again, this is all over the POI or Period of Investigation, sorry for the acronym.

MR. KREIFELS: I'll answer at least first because from the industrial market we see a lot lighter

breadth of the product and then get into some of the larger taper roller bearings as well as other bearing types, in general. And I would tell you that from my region and my customers it was a general theme to diversify the supply base across all sizes, all product ranges.

Multiple customers had the same strategy that Mr. Schamp said this morning. Some even gave us specifics of no one supplier will have more than 25 percent of our total spend of bearings. And again, that's not specific to any type or size range. That was just in general for their business and also was not specific to bearings. It was across multiple what they would call commodities.

MR. SCHAMP: Just echo those comments, but to add, I think, to your other point, from a Dana perspective we don't want to have an unlimited number of suppliers that supply us either. We want a few trusted suppliers that have shown their technical expertise, their support, and that fit all the factors and requirements that we're looking for. So we try to keep it to a small number, but we definitely made a concerted effort to change that number for one supplier primarily to four or five suppliers for each product size range and application.

MR. ANDERSON: Thank you very much. I appreciate that helpful information.

With that, on behalf of the staff, I want to

thank you all very much for being here for your presentations. It's been very helpful and thank you for taking time out of your businesses to be here today.

We'd like to now transition into closing arguments, so we'll just have a couple minutes, let the parties rotate to the table and then we'll start with that in a few minutes. Thank you.

MS. BELLAMY: Will the room come to order.

(Pause.)

MS. BELLAMY: Closing remarks on behalf of petitioner Elizabeth J. Drake, Stewart and Stewart.

CLOSING STATEMENT OF ELIZABETH J. DRAKE

MS. DRAKE: Good afternoon, Elizabeth Drake of Stewart and Stewart for the petitioner, the Timken Company.

First, I want to thank the Commission staff for their attention and helpful questions during today's conference and especially for all of your work that goes unseen in terms of compiling the record and the staff report for this preliminary phase investigation. We believe that record will strongly support an affirmative preliminary determination.

Before moving to my closing remarks, I wanted to address some of the points that were made by those in opposition to relief during this afternoon's panel. First, with regard to domestic like product, at no point did we

state or allege that the Commission is required to limit the domestic like product to the scope, but the domestic like product inquiry does start with the scope. That is very clear across many cases.

It's also very clear that the Commission is not bound by prior domestic like product determinations. We heard the word precedent used a lot this afternoon. There is no precedential impact of prior decisions. Certainly the Commission can take them into account, but every case is sui generis. And in fact, there are numerous cases where there has been a product subject to various investigations with various scopes. And the domestic like product has varied along with the variance in the scope, even though it's the same basic product area that's under investigation. So that is not impressive and it has happened numerous times.

It's also the case that the Commission -- the continuum issue, the Commission, a number of cases, has said, well, it's true that we will define a continuum of product within the scope as being a single domestic like product, our inquiry into whether or not to expand beyond the scope to something that may be alleged to be a continuum is a different inquiry. The minivans case from Japan is one case where the Commission said that there are several others. So it's not -- and there are cases where the Commission has specifically rejected respondents' arguments

that any time there's a continuum, that has to be domestic like product, regardless of what the scope is or regardless of the fact that there may be some reasonable lines along that continuum.

The -- those in opposition to relief also said that in the history of -- the entire history of the bearings industry, never, ever have petitioners or the Commission sought for a more limited domestic like product or defined a more limited domestic like product. That's not the case. A 1983 case on journal or rail bearings, excuse me, the domestic like product was limited to only those bearings contained in the scope. These were tapered roller bearings used in the rail industry. And part of the definition of both the scope and domestic like product was a range of outer diameters.

So to the extent that the Commission wants to look to prior determinations for guidance, that is one that should be taken into account as well. Also in terms of the facts of the kinds of differences that we've identified between TRBs of different outer diameters and house versus other, we heard today from Korean producers that they also do not produce any over 8. So by definition, their manufacturing facilities are dedicated to 0 to 8 product, just as most of Timken's facilities that produce 0 to 8 product are dedicated to that product.

We also heard from the gentleman from Schaeffler, who -- sales for the industrial market that he was consistently asked by his customer for 4 to 8 inch diameter product. So there we have customer perceptions that these diameter limitations are meaningful in the market. So we believe that kind of evidence, the evidence we've put on the record, and your final record will all support defining the domestic like product as being one product, but co-extensive with the scope and not expanded beyond the scope.

Moving to the volume of subject imports, we heard that the volume is minimal, that it could not be having any impact whatsoever on the domestic industry. But as we discussed this morning, Korea has been the only source of growth into the U.S. market and a massive source of growth nearly doubling in volume from 2014 to 2016, while all major sources declined and the domestic industry declined.

In that kind of context, even a 10 percent, 8 percent market share is very significant because it's rapidly growing and it's only doing that through very deep price undercutting. And so in a market where products are so interchangeable, where the focus of their increase in imports is in those high volume products, where prices vary, important even product with that low market share can have

massive ripple effects throughout the entire market in terms of being a low price leader. And that's been Timken's experience in terms of trying to compete with these Korean imports facing, you know, widespread and very deep underselling. And we believe that the Commission's data will support that. So that volume of imports is significant both absolutely with a significant volume increase and significant relative to domestic production and consumption.

Moving to issues related to price, we heard that because ILGIN apparently doesn't produce any of the six pricing products, that Timken identified for the questionnaire, that ILGIN obviously doesn't compete with Timken. That's just very hard to swallow argument, given that there are tens of thousands of part numbers in this industry. So it is impossible unless the Commission staff want to collect pricing data on tens of thousands of part numbers, you're always going to have coverage in pricing data in the TRB industry. And you will have, you know, if you just have six out of 26,000, it's not surprising that maybe there wouldn't be production by some producers of just those six products.

Also related to pricing, we heard that while they -- you know, the same part number may be technically interchangeable, it may function differently. And that may

be the case depending on the producer. But we also heard that the Korean producers have produced very high quality, that they out test Timken product, that they fully satisfy these major customers. So any of those issues related to quality, if they may be theoretically there, certainly don't appear to be there with the imports from Korea that are not only technically interchangeable, but actually functionally interchangeable with Timken product in the market.

In terms of the whole contract and bidding process that folks talked us through, there's a lot of emphasis on, well, you need to qualify and you need to be able to submit a technical proposal. And you need to get verified and all of that. Yet, ultimately, if you've got two, three, four producers who have done all of that, the choice comes down to price. So price is a factor and especially where the quality between all of the suppliers, Korean and U.S., is very comparable and especially when they're focused on the high volume part numbers that are so important in the market, all of that process, yes, it's true it exists, but you lose a contract. After you meet all of that, you lose a contract if you're not able to meet the price.

It's also not true that contracts insulate domestic producers from adverse price effects as well

alleged. Later, other witnesses on the panel admitted that their own contracts have resourcing provisions that doesn't insulate them from price competition during the life of the contract that they don't like these provisions, but they have to agree to them in a number of cases and that these provisions are used by their customers to pressure them for -- to lower prices even if it doesn't result in a shift in volume.

Now ILGIN claimed that it's never lost any business because of any of this resourcing provisions. That may be true, but Timken certainly has lost business to ILGIN through provisions like this and to other Korean producers.

The claim that ILGIN does not compete with Timken is again belied by the experience of Timken's own sales force, who's constantly asked to compete with Korean prices.

And finally, on -- are my minutes that we have left over from the morning being added in?

MS. BELLAMY: No. You have 45 seconds left.

MS. DRAKE: Oh, I thought they were added in?

MS. BELLAMY: Not in a Preliminary Conference.

MS. DRAKE: I'm sorry. Okay, fix it and exit, Timken was trying to fix the business because it was not meeting its cost of capital and it was unsustainable. And so they had to go to their customers and say, listen, if we

cannot get prices at a level that allows us to cover our cost of capital, our business is no longer sustainable. The fix it part was the goal. The goal was to fix the business. It was the customers that refused to pay prices that kept the business sustainable that took the business away from Timken.

Timken never exited the market. It continued to compete in the market. It continued to bid on contracts. It continued to be a significant player in the automotive market. There was no -- it didn't abandon the market. It never left it entirely.

And in 2014, the strategy was over. And the -- they took a lot of steps to take out costs out of their system to work with their supply chain in order to be competitive. And the reason they haven't been able to increase is not because of their abandonment, but because of aggressive price competition from rising volumes of Korean imports that have entered the domestic industry. Thank you.

MR. ANDERSON: Thank you, Ms. Drake.

MS. BELLAMY: Closing remarks on behalf of respondents Craig A. Lewis of Hogan Lovells, US, LLP.

CLOSING STATEMENT OF CRAIG A. LEWIS

MR. LEWIS: Thank you very much and good afternoon. I also want to extend my thanks to the Commission staff I think very much like the experiences for

us as counsel, it's a whirlwind process with these prelims, 45 days start to finish, that I'm always very much impressed with the amount of work that goes into that and appreciate it from our side of the table or the -- if you will.

I'm not going to take up all my time. I just want to make a few brief concluding remarks echoing what you heard today from our very able panel. The first with respect to volume. I go back again to the chart that Mr. Dougan shared, which shows very clearly that subject imports from Korea are a very small part of total shipments. And bear in mind, this is shipments. So the capacity -- the market share figures are going to be substantially lower. And assuming you address the like product issue appropriately, even lower still.

The other thing that's very important to bear in mind with respect to volume as well is as I think was brought up by some of the questions, is market segmentation, industrial versus automotive. Timken has testified that they've lost volume. It's going to be very important from the Commission to understand what market segment that loss was in. Was it in industrials? Was it in automotive where the Koreans are most heavily concentrated?

There -- the record obviously is not as robust on that question as it needs to be for a prelim, but that's the nature of a prelim. But I think there is more than

sufficient here to support a finding by the Commission and one that as I'm going to continue to explain, should be a negative determination.

Secondly, like product, what is it the petitioners are trying to hide here? Why are they doing this? I won't guess as to their motivation, but it seems to me pretty clear. They're looking to gerrymander the scope in this particular case in a way that they have not done in the past. I think there was reference made to journal bearings. I'm not terribly familiar with that case as being an example of where they have taken a different approach. But I understand that's a very unique product and we'll address that in our post conference brief, one that apparently is only addressed to railway applications have very unique characteristics to it that are not present here.

This is a product that has a long history with the Commission. It's been looked at multiple times as true. Each case is sui generis, but it was also true that the Commission appropriately builds on the experience of prior Commissions in looking at these questions and appropriately should look in this case and ask what it is that is different about the products that you're looking at that compels a different result here. And I think that question is made all the more pertinent and important when you've got a parallel sunset review addressing the identical products

happening with respect to Chinese products.

So again, we'll address this in our post-conference brief, but I think it's quite clear that the like product should be what it was in prior cases. And there's no basis for changing.

As to pricing, the testimony the Commission heard, I think, from both panels, I think, is quite consistent in demonstrating that this is not a commodity product where two part numbers are just pulled off the shelf at a Napa distributor and all you do is look at the price. The process of qualification for suppliers is arduous. It's expensive. It's time consuming. These are highly engineered products. They're highly differentiated. You heard testimony that even with a given part number, there's various significant differences in the materials that may go into the product and its performance characteristics and its application.

Why is that relevant? Well, you know, the Commission's pricing products and pricing comparisons are looking at quarterly comparisons and averaging values for two different products. And they're averaging them over quarters. And given that context, it's not simply a matter of saying, well, gee, what was the prevailing market price or the prevailing U.S. price to this type of product during this period. You're really quite literally comparing apples

and oranges inevitably in this case because the -- of the differences in the products.

And so, I would submit that the pricing comparison data just is inherently in an industry like this is of less value than it would be for a product that is actually a commodity, which this is not.

In terms of impact, not a lot spoken about lost profits from the other side here. I can only speak to the public record obviously. And which causes me to look at broader industry or broader market focus for Timken. But it's without a doubt the case that this is a highly profitable company with very high profits in every year of the period of investigation. Of course, you'll be looking at the data you collected specific to TRBs that I can't speak to in this hearing, but I would submit this is not a situation where it's a -- an industry that's suffering financially.

So why this case? Why are we here today addressing this? Well, I think it really goes back to prior to this review period, to this fix or exit strategy that occurred about seven or nine years ago. We're going to place a lot more information on the record concerning this to document exactly what was intended there. But the bottom line is that the Timken made a deliberate decision to pursue a policy that ultimately led to their exit. I don't know

if you want to call it abandonment. I'll use their word which is exit. They decided to exit the automotive market.

And while I am sure they're going to say it was because of the onslaught of unfairly priced imports, what's important in the context of this proceeding is that it was not Korean imports that could possibly be tagged with responsibility for that because they weren't in the market.

Now Korean imports have come into the market, but they've come into that precise segment of the market that Timken abandoned or exited, excuse me. And this case is clearly about an effort by Timken to claw its way back into an industry where it left a series of bitter customers who were forced into diversifying to address the problem they face with Timken back then.

So how does Timken decide to get back into this market segment? Is it looking to innovate, draw on its successful engineering prowess? No. They're looking to the government to provide them that access to remove other suppliers from the market. Bear in mind, this was an industry that not in 2016 or a company in 2016 received $60 million in Byrd Amendment distributions. That's money that otherwise would have gone into the Treasury to build roads, build VA hospitals. It's instead going to Timken and Timken's shareholders.

This is the same company that is having a White

House meeting, I believe it's today or tomorrow, to seek Section 232 relief of some form in the guise of national security. So this case is about using a governmental process to secure market access. That said, that the issue for the Commission is to address the legal statutory factors of volume, price, and impact.

And I'll submit as I've addressed that in each of these factors, particularly when it's viewed properly in the context of a -- well, a properly defined like product, there is every reason for the Commission to issue a negative determination at this preliminary stage. Thank you very much.

MR. ANDERSON: Thank you, Mr. Lewis. On behalf of the Commission and staff, I would like to thank our witnesses and our counsel for being here today and helping us gain a better understanding of this industry and the conditions of the competition and the market place.

Before concluding, I just want to put out a couple reminders about some key deadlines remaining in the investigation. The deadline for submission of correction to the transcript and for submission of post-conference briefs is Monday, July 24th. If briefs contain business proprietary information, a public version is due on Tuesday, July 25th.

The Commission has tentatively scheduled its

vote on this investigation for Friday, August 11th. And it will report its determination to Secretary of Department of Commerce on Monday, August 14th. Commissioners' opinions will be issued on Monday, August 21st. And with that, I thank you all for your participation. This conference is adjourned.

(Whereupon the hearing was adjourned at 1:45 p.m.)

CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Tapered Roller Bearings from Korea

INVESTIGATION NO.: 731-TA-1380

HEARING DATE: 7-19-17

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: 7-19-17

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Signature of the Contractor or the Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker identification and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceedings.

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