

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation Nos.:
STEEL PROPANE CYLINDERS FROM) 701-TA-607 and
CHINA AND THAILAND) 731-TA-1417-1419
) (Final)

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UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:) Investigation Nos.:
STEEL PROPANE CYLINDERS FROM) 701-TA-607 AND
CHINA AND THAILAND) 731-TA-1417-1419 (FINAL)

Main Hearing Room (Room 101)
U.S. International Trade
Commission
500 E Street, SW
Washington, DC
Wednesday, June 5, 2019

The meeting commenced pursuant to notice at 9:30
a.m., before the Commissioners of the United States
International Trade Commission, the Honorable David S.
Johanson, Chairman, presiding.

1 APPEARANCES:

2 On behalf of the International Trade Commission:

3 Commissioners:

4 Chairman David S. Johanson (presiding)

5 Commissioner Irving A. Williamson

6 Commissioner Rhonda K. Schmidlein

7 Commissioner Jason E. Kearns

8

9

10

11 Staff:

12 William R. Bishop, Supervisory Hearings and Information
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17 Abu K. Kanu, Investigator

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20 David Boyland, Accountant/Auditor

21 Courtney McNamara, Attorney/Advisor

22 Craig Thomsen, Supervisory Investigator

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25

1 Opening Remarks:

2 Petitioner (Paul C. Rosenthal, Kelley Drye & Warren LLP)

3 Respondent (Gregory S. Menegaz, DeKieffer & Horgan, PLLC)

4

5 In Support of the Imposition of Antidumping and

6 Countervailing Duty Orders:

7 Kelley Drye & Warren LLP

8 Washington, DC

9 on behalf of

10 Worthington Industries

11 Manchester Tank & Equipment Co.

12 G. Ruffner Page, Jr., President, Mc Wane, Inc. and

13 Acting Chief Operating Officer, Manchester Tank & Equipment

14 Co.

15 Scott Viebranz, Vice President, Sales, Propane and

16 Chemical, Mancheser Tank & Equipment Co.

17 Mark Komlosi, Director of LP Gas Products, Worthington

18 Industries

19 James Bowes, Director of Finance, Worthington

20 Industries

21 Dale Brinkman, General Counsel, Worthington Industries

22 Michael T. Kerwin, Economist, Georgetown Consultant

23 Services LLC

24 Paul C. Rosenthal, R. Alan Lubberda and Brooke M. Ringel

25 - Of Counsel

1 In Opposition to the Imposition of Antidumping and
2 Countervailing Duty Orders:

3 DeKieffer & Horgan, PLLC

4 Washington, DC

5 on behalf of

6 Worldwide Distribution, LLLP

7 Shandong Huanri Group Co., Ltd.

8 Hongkong GSBF Company Limited

9 Rob Simon, CEO, Worldwide Distribution, LLLP

10 Brad Cancelosi, VPO, Worldwide Distribution, LLLP

11 Eric Brumbaugh, General Manager, UFP Distribution

12 Leo Akins, Director, Quality Assurance, Codes &

13 Standard, Forest River, Inc.

14 James P. Dougan, Vice President, Economic Consulting
15 Services

16 Marlena Luhr, Staff Economist, Economic Consulting
17 Services

18 Gregory S. Menegaz - Of Counsel

19

20 Rebuttal/Closing Remarks:

21 Petitioner (Paul C. Rosenthal and R. Alan Luberda, Kelley
22 Drye & Warren LLP)

23 Respondent (Gregory S. Menegaz, DeKieffer & Horgan, PLLC and
24 James P. Dougan, Vice President, Economic Consulting
25 Services)

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1 P R O C E E D I N G S 9:35 a.m.

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

3 CHAIRMAN JOHANSON: Good morning. On behalf of
4 the U.S. International Trade Commission I welcome you to
5 this hearing on the final phase of Investigation Nos.
6 701-TA-607 and 731-TA-1417 concerning Steel Propane
7 Cylinders from China and Thailand.

8 The purpose of these Final Investigations is to
9 determine whether an industry in the United States is
10 materially injured or threatened with material injury or the
11 establishment of an industry in the United States is
12 materially retarded by reason of imports of Steel Propane
13 Cylinders from China and Thailand.

14 Schedule setting forth the presentation of this
15 hearing, notices of investigation and transcript order forms
16 are available at the Public Distribution Table. All
17 prepared testimony should be given to the Secretary. Please
18 do not place testimony directly on the Public Distribution
19 table.

20 All witnesses must be sworn in by the Secretary
21 before presenting testimony. I understand that parties are
22 aware of the time allocations. Any questions regarding the
23 time allocations should be directed to the Secretary.
24 Speakers are reminded not to refer in their remarks or
25 answers to questions to business proprietary information.

1 Please speak clearly into the microphones and state your
2 name for the record for the benefit of the court reporter
3 and those seated in the back of the room.

4 If you will be submitting documents that contain
5 information you wish classified as business confidential,
6 your request should comply with Commission Rule 201.6. Mr.
7 Secretary, are there any preliminary matters?

8 MR. BISHOP: Mr. Chairman, I would note that all
9 witnesses for today's hearing have been sworn in. There are
10 no other preliminary matters.

11 CHAIRMAN JOHANSON: Very well. Let us begin with
12 opening remarks.

13 MR. BISHOP: Opening remarks on behalf of
14 Petitioner will be given by Paul C. Rosenthal of Kelley,
15 Drye and Warren. Mr. Rosenthal, you have five minutes.

16 STATEMENT OF PAUL C. ROSENTHAL

17 MR. ROSENTHAL: Good morning, Mr. Chairman and
18 Members of the Commission.

19 A couple weeks ago I was reading an article about
20 the debate about whether Harriett Tubman should replace
21 Andrew Jackson as the face of the 20-dollar bill and I came
22 across an observation by William Faulkner that said "the
23 past is not ever dead, it's not even past". It was profound
24 enough to make me read it several times and believe it or
25 not I said to myself "that's what I tell the ITC regularly";

1 although usually my references are to my cousin Vinnie,
2 which are slightly less erudite.

3 When I think though of the idea that the past is
4 never dead, it's not even past, it's in the context of
5 urging the Commission to look at the Period of Investigation
6 and context. The Period of Investigation is really only a
7 frame in the motion picture of every case. When I suggest
8 that the Commission look at the years prior to the
9 Investigation it's to better understand the data, the facts
10 that are actually on the record during the Period of
11 Investigation.

12 So even though this is your first case in propane
13 cylinders, the product is very well known to you if you own
14 a barbeque, have ever warmed yourself under a heater
15 outdoors or driven a recreational vehicle, you will readily
16 recognize a sealed propane cylinder.

17 While the sizes may vary, the cylinders look the
18 same and have the same uses. That's no coincidence. They
19 are made to the same standards and they are made to be
20 interchangeable. There is nothing to differentiate them
21 other than price. As our witnesses will tell you, imports
22 of steel cylinders first made significant inroads into the
23 U.S. Market right before and especially after the great
24 recession when they targeted recreational vehicle industry
25 customers.

1 At that time, RV manufacturers were anxious to
2 reduce their costs and the one way they did that was to buy
3 low-priced imports of steel propane cylinders. Imports at
4 that time captured the vast majority of the sales to the RV
5 industry and have maintained their grip on that part of the
6 propane cylinder customer base.

7 Production of Steel Propane Cylinders is capital
8 intensive and requires sufficient capacity utilization to
9 control costs. Having lost significant sales to the RV part
10 of the customer base, the Domestic Producers understand they
11 cannot afford to lose more volume. Unfortunately, the
12 Domestic Producer propane cylinder producers have watched in
13 recent years as imports have expanded from beyond the RV
14 customers and targeted others including distributors,
15 retailers, and gas exchangers.

16 U.S. Producers have begun to lose sales and have
17 lost sales to these customers as well. The customer base
18 for these sales is very small and concentrated. There are
19 relatively few big gas exchangers and a handful of big
20 retail customers. Having seen the canary in the RV mine put
21 on life support, the Domestic Producers know that they can
22 ill afford to lose volume from their retailer and gas
23 exchanger customers.

24 So the Domestic Producers have done everything
25 they can to manage their costs and keep their prices low.

1 When they've tried to increase prices just to cover costs,
2 they have not been able to do so. Some of their customers
3 have told them not to even propose a price increase because
4 doing so would risk losing sales to imports, and when they
5 did increase their prices the data you collected shows that
6 it cost them volume to the Subject Imports.

7 While Respondents go to great lengths to
8 differentiate the Subject Imports and claim that they are
9 sold on some basis other than price, the record, including
10 Respondents' statements refutes all the non-price claims.
11 The purchasers tell you that price is paramount and the
12 record shows in every way possible, including extensive
13 underselling across the entire propane cylinder customer
14 base.

15 The result of the low-price import competition is
16 obvious in the Domestic Industry's financial results,
17 inadequate and declining profits. Indeed, this industry has
18 been injured throughout the Period of Investigation. Filing
19 this case gave the Domestic Producers some cover to try to
20 regain fair pricing with their customers but with
21 significant volumes of Subject Imports still in the market
22 and customers in wait-and-see mode, more shipments have not
23 led to sustained profitability or sustainable profitability.

24 In fact, the opposite has occurred. With
25 competition from Subject Imports keeping a lid on prices,

1 steel and healthcare costs cannot be offset. As the record
2 shows, the high volumes and low prices of imports have
3 materially injured the Domestic Industry and the Industry's
4 future will be in jeopardy unless the unfair trade
5 practices of the Foreign Producers are eliminated.

6 The industry witnesses look forward to expanding
7 on these key points and explaining why an affirmative
8 determination in this case is warranted. Thank you.

9 MR. BISHOP: Thank you, Mr. Rosenthal. Open
10 remarks on behalf of Respondent will be given by Gregory S.
11 Menegaz, DeKieffer and Horgan. Mr. Menegaz, you have five
12 minutes.

13 STATEMENT OF GREGORY S. MENEGAZ

14 MR. MENEGAZ: Hello everybody. This is Greg
15 Menegaz from DeKieffer Horgan. I'm here on behalf of
16 Worldwide, a distributor in the RV market as well as
17 Shandong Huanri Group, their supplier in China and GSBF
18 which is another Chinese exporter in these cases.

19 We also have a Panel for the afternoon. In
20 addition to Worldwide, we're going to have people from UFP
21 distribution and also from Forest River so we believe that
22 we've basically brought you the entire RV market here so you
23 can hear firsthand from the people most knowledgeable in
24 this market.

25 In this investigation we believe that the

1 Petitioners have not met their burden to demonstrate with
2 data that their industry is injured or threatened with
3 material injury by reason of imports from China and
4 Thailand.

5 The U.S. Market for propane cylinders is highly
6 segmented. There are four channels of distribution
7 recognized in the Staff Report. We have gas exchangers,
8 retailers, distributors and RV manufacturers. The
9 Commission has collected data on the pricing products which
10 are 20 and 30 pound cylinders by these channels.

11 The Petitioners play mainly in different market
12 segments than the Subject Imports. For example, the
13 Petitioners dominate the market for the gas exchangers and
14 the retailers whereas the importers are largely concentrated
15 in the distributor and RV manufacturing segments and as
16 we've suggested in our brief and as you'll hear today, the
17 distributor and RV manufacturer segments are very closely
18 linked.

19 We must say there are a few things that jump out
20 from the Petitioner's prehearing brief. First, despite the
21 fact that the final phase POI is 2016 to 2018, they spend a
22 lot of time alleging injury in the pre-POI period. This is
23 an indication to us that the record evidence with respect to
24 the POI is weak with respect to material injury and threat.

25 Meanwhile, the Petitioner's prehearing brief

1 utterly fails to discuss the significance of the 232 and 301
2 sanctions these special tariff measures on these
3 investigations, as is practically unprecedented that this is
4 all happening at the same time in one investigation.

5 It's been wildly reported in the press that the
6 232 measures increased costs for all steel in the United
7 States and that would have to have a very big impact on this
8 case and we think the confidential record supports that.
9 With respect to the 301 they were threatened halfway through
10 the POI and that already disrupted the market and they were
11 already imposed on the last year of the POI.

12 So we feel it has had an effect on the POI and
13 certainly on any kind of threat analysis. So we think that
14 when the Commission looks at the particular market dynamics
15 of each segment and the data for it they will find that the
16 Petitioner's injury case for the POI falls apart.

17 We know that the Petitioners will blame this on
18 unfairly traded imports but we think that the truth lies
19 elsewhere and our witnesses will testify frankly this
20 afternoon to that fact. We will also offer economic
21 testimony in support and a lot of that involves confidential
22 data.

23 Obviously, we think the 232 and also certain
24 dynamics in the market where the Petitioners are most
25 significant, really the reason why they are suffering

1 economic misfortune right now. A lot of that is
2 confidential but we will do our best to raise these issues
3 here today.

4 With respect of the threat of injury, we are
5 asking the Commission to decumulate China and Thailand. The
6 primary reason is that China now has a 25 percent 301 tariff
7 imposed upon it and that is going to significantly hamper
8 its ability to participate in the U.S. Market going forward.

9 But there is an additional reason, and that is
10 there is a Domestic Producer who has controlled imports from
11 Thailand. There are no controlled imports from China. So
12 we think those reasons are compelling reasons to decumulate
13 the countries for threat analysis. Even if you aggregate
14 the two countries as we've mentioned in our brief we think
15 the data doesn't support threat of injury. A lot of that
16 involves confidential information. We will get to that
17 later in our presentation.

18 So with that, we look forward to the afternoon
19 Panel and thank you very much for your time.

20 MR. BISHOP Thank you, Mr. Menegaz. Would the
21 panel in support of the imposition of the anti-dumping and
22 countervailing duty orders please come forward and be
23 seated. Mr. Chairman, this panel has 60 minutes for their
24 direct testimony.

25 (Pause.)

1 CHAIRMAN JOHANSON: You may begin whenever
2 you're ready.

3 MR. ROSENTHAL: Thank you again, Mr. Chairman.
4 For the record, Paul Rosenthal on behalf of the domestic
5 industry. Our first witness this morning will be Ruffner
6 Page. Mr. Page.

7 STATEMENT OF G. RUFFNER PAGE, JR.

8 MR. PAGE: Good morning. That better? Okay.
9 Good morning. My name is Ruffner Page. I'm president of
10 Mc Wane, Inc., Manchester Tank Equipment's parent company,
11 and the current acting chief operating officer of Manchester
12 Tank. Manchester is one of two producers of steel propane
13 cylinders in the United States.

14 Manchester was formed in 1946 in the wake of
15 World War II, to provide cylinders to a growing propane
16 industry. Manchester's workforce supports several
17 communities throughout the United States. Our central
18 office is in Franklin, Tennessee. We have highly efficient
19 and cost competitive production facilities in Crossville,
20 Tennessee and Elkhart, Indiana, where we strive to serve our
21 remaining recreational vehicle customers just down the
22 road.

23 We also have distribution centers in
24 Carrollton, Texas and Walnut, California, that give us the
25 capacity to serve customers nationwide with short lead times

1 and great customer service. We have watched imports from
2 China and Thailand take a greater share of the steel propane
3 cylinder market over time. Those imports have been injuring
4 Manchester, and we feel we could no longer wait for the
5 inevitable demise of our business to occur before taking
6 action.

7 Manchester's been dealing with the problem of
8 low-priced imports for a decade now. We first began to see
9 serious competition from imports of steel propane cylinders
10 at our RV customers. Our Elkhart, Indiana production
11 facility is located in the RV production capital of the
12 world. We could not be better situated to serve those
13 customers, yet we have lost almost all their business
14 because we cannot compete with the unfairly priced imports.

15 We have been forced to idle lines at our
16 Elkhart facility in response to the loss, and are doing
17 everything we can to keep that shrinking facility
18 operational. We offer exactly what the imports offer. Our
19 service is top notch; our cylinders can get to the customers
20 by truck from just a few miles away.

21 Our loss of business for the RV industry comes
22 down to one thing, price. The imported cylinders are coming
23 from China and Thailand and being shipped to Elkhart in the
24 middle of the United States at prices Manchester cannot hope
25 to match, even though we have virtually no shipping cost to

1 those customers. Once the imported cylinders gain a
2 foothold in the RV -- with the RV producers, they steadily
3 pushed us out of the market almost entirely.

4 The RV industry is not being quiet about its
5 drive to reduce costs, and they've been able to do so by
6 buying very low-priced propane cylinders. Yet when
7 importers cannot supply dumped cylinders, the RV turns to us
8 as a backdrop of support. We want to be the prime source
9 for RV purchasers, so since filing this case we continue to
10 call on RV producers, former customers we want back and
11 those we would like to gain.

12 But I've heard the RV customers plan to wait
13 out the investigation, in hopes that they can keep buying
14 these unfairly traded Chinese and Thai cylinders. Those
15 customers continue to tell us our prices are too high. I
16 understand that some importers have warehouses in the United
17 States with a substantial amount of low-priced inventory, so
18 the RV customers still have access to dumped and subsidized
19 propane cylinders.

20 We are largely shut out of the sales to the RV
21 industry now and without relief I doubt we will -- I have no
22 doubt we will lose those customers forever. To make matters
23 worse, the imports have made inroads with gas exchangers and
24 retailers. As the imports gain business in those customers
25 with low prices, we continue to lose opportunities. After

1 all, the gas exchangers are price sensitive. They're
2 selling propane. The cylinders are viewed simply as a cost
3 of selling the gas.

4 Due to the low priced imports, we have been
5 forced to keep our prices at rock bottom to avoid losing
6 more volume. Manchester cannot afford to have these
7 unfairly traded imports further erode our U.S. customer
8 case. For some large retail customers that demand a low
9 nationwide price, we have even turned to importing some
10 propane cylinders over the last several years.

11 In those cases, it was better for us to keep
12 the contract at a lower price by blending in imports than to
13 entirely lose the national customers to imports, or sell our
14 domestic cylinders below cost. But those customers have
15 continued to choose to buy imports from China and Thailand
16 at prices that we could not meet even using this strategy.

17 Because of that, and in anticipation of a
18 favorable ruling here, we have stopped importing cylinders.
19 We want to sell domestically produced cylinders to our U.S.
20 customers. If you look at our top ten customer list in the
21 questionnaire response, you will see just how much those few
22 customers represent to our overall business. Our capacity
23 utilization in this capital intensive industry is already
24 inadequate. We cannot afford to lose business in the large
25 volume these customers represent, and in the way we did with

1 our RV customers.

2 We are doing everything we can to keep our
3 existing customers, but we cannot afford to match import
4 pricing across our customer base, particularly as our costs
5 have been rising. These current conditions are simply not
6 sustainable. That is why we decided to act by filing this
7 dumping case while we still can. The stakes are high,
8 volume lost to low-priced Chinese and Thai imports is
9 potentially irreversible.

10 We want to keep our doors open and continue
11 manufacturing propane cylinders in the United States. We're
12 aggressively courting old and new customers, trying to get
13 more volume to fill our facilities and staffing up in
14 preparation for more orders. Our employees, including the
15 International Machinist Union in Crossville, Tennessee need
16 relief from the unfair import pricing to make that a reality
17 and return to profitability and growth in our business.
18 Thank you.

19 STATEMENT OF MARK KOMLOSI

20 MR. KOMLOSI: Good morning. My name is Mark
21 Komlosi, and I'm the director of LP Gas Products for
22 Worthington Industries. I've been with Worthington for over
23 15 years, all of which have been in the propane cylinder
24 business. Worthington Industries is headquartered in
25 Columbus, Ohio, where the company began as a steel

1 processing business in 1955. We produce the steel propane
2 cylinders that are the subject of this case at our
3 Westerville, Ohio facility.

4 I am very familiar with the U.S. market for
5 steel propane cylinders, given my role and previous
6 experience as North American sales manager for Worthington.
7 I appreciate the opportunity to be here today to tell you
8 about the product that is the subject of the case, give you
9 an understanding of the U.S. market, and explain how our
10 company has been injured by unfairly priced imports from
11 China and Thailand.

12 Steel propane cylinders are low pressure
13 cylinders used to store, transport and deliver or liquefied
14 propane gas or other gases. They have gas capacities of 2.5
15 pounds to 42 pounds. Steel propane cylinders are typically
16 comprised of a tank body with one or two ports, a horseshoe
17 collar, a foot ring and a valve with an overfill prevention
18 device.

19 Within the size range of propane cylinders
20 covered by this case, typical gas capacity measurements
21 produced include four and a quarter pounds, ten pounds, 11
22 pounds, 20, 30 and 40 pounds. The 20 and 30 pound
23 cylinders, however, make up by far the largest share of
24 total sales.

25 Propane cylinders are used primarily in the

1 delivery of gas to barbeque grills, outdoor heaters, fire
2 pits and recreational vehicles. We brought a sample of the
3 20 pound unit that Worthington makes. I'm sure everyone
4 here has seen one of these attached to a barbeque grill, or
5 maybe outside of a store where there is a propane exchange
6 cage.

7 These propane cylinders are made to be
8 portable and refillable for multiple uses over many years.
9 In the United States, the production and use of portable
10 steel propane cylinders are regulated by the U.S. Department
11 of Transportation and must meet the DOT specifications.
12 These regulations ensure the safety of the cylinders which
13 are used by consumers.

14 The production of propane cylinders is very
15 capital intensive. We produce propane cylinders at our
16 Westerville facility on dedicated and highly automated
17 production lines. The production process begins with
18 flat-rolled steel coils and ends with the finished
19 cylinders. All propane cylinders must be tested and
20 recertified after ten years of use, and every five years
21 thereafter to ensure they remain safe to use.

22 The identical steel propane cylinders are sold
23 to retailers that resell empty cylinders to consumers, to
24 gas exchangers that distribute filled cylinders to
25 consumers, distributors and RV manufacturers. There are a

1 few large customers that drive the highest volume of sales.
2 To lose those customers or even a portion of those
3 customers' annual volume is devastating to our operation.
4 That is exactly what has been happening as dumped and
5 subsidized imports have been gaining sales with these
6 important purchasers.

7 At Worthington, we pride ourselves on
8 producing high quality steel propane cylinders in a cost
9 efficient operation. We provide great value to our
10 customers in terms of short lead times, flexibility and
11 products that meet consumers' needs. Despite all that,
12 Worthington has been injured by unfairly priced imports of
13 steel propane cylinders from China and Thailand.

14 We have significant excess capacity to produce
15 steel propane cylinders, and would like to produce more. In
16 fact, our production volume used to be much higher before we
17 lost the bulk of our recreational vehicle customers to
18 low-priced imports. A decade ago, imports from China and
19 Thailand began gaining sales with our RV customers.

20 Those customers are primarily based on
21 Elkhart, Indiana, which is only a few hours' drive from our
22 facility in Westerville, Ohio. Contrary to what Respondents
23 claimed during the preliminary stage of this case, we have
24 not overlooked our RV customers, and have not failed at
25 marketing ourselves to that channel.

1 On the contrary, sales to RV manufacturers
2 were a major share of our propane cylinder business, and
3 Worthington continues to call on those customers on a
4 regular basis. We have been in the business for over half a
5 century. We did not suddenly forget how to make and sell
6 high quality propane cylinders. RV producers have switched
7 to buying imported steel cylinders for one reason: price.

8 At the preliminary hearing, Mr. Newman of
9 Flame King explained that a lot of RV producers went out of
10 business in 2008 as a result of the Great Recession. That's
11 when Mr. Newman and other importers began selling propane
12 cylinders to those customers. And now according to Mr.
13 Newman, the RV industry has come back.

14 Other Respondents explained why this has
15 happened. There have been a significant shift to more
16 affordable and "very cheap towable vehicles that are
17 attractive to younger, cash-strapped consumers." Propane
18 cylinder prices matter to RV producers because they are
19 focused on keeping cost down in any way they can.

20 The last time we were all here, the
21 Respondents admitted that our propane cylinders and the
22 imports are standardized and interchangeable. They are
23 produced to a uniform government specification, and must all
24 meet the same rigorous safety requirements. Respondents
25 admitted that Worthington and Manchester actually have a

1 number of advantages in terms of delivery times and
2 production efficiency.

3 Ultimately, the only meaningful differentiator
4 between domestic and imported cylinders is price. There is
5 no explanation other than price for why Worthington with
6 high quality product, excellent service, short lead times
7 and plenty of available capacity has lost virtually all of
8 our sales to RV customers, despite the tremendous growth in
9 that industry that Respondents have touted.

10 On the basis of price, imports made
11 significant inroads with RV customers. Importers
12 established distribution networks and developed the
13 capability to inventory large quantities of cylinders. In
14 recent years, we have seen the same pattern emerging with
15 import competition to our retail and gas exchanger
16 customers.

17 They are being enticed by low-priced import
18 offers. Subject imports are taking sales and market share
19 at these customers in the same way they successfully
20 undersold us and displaced us at our RV customers. In fact,
21 Worthington has lost significant portions of both spot and
22 high volume contract sales opportunities that we have quoted
23 due to low-priced import competition.

24 Since filing this trade case, we have not seen
25 order volumes or prices increase to the levels we

1 anticipated because imports from China and Thailand are
2 still being offered in the U.S. market at aggressively low
3 prices, and importers and their customers have inventoried
4 large volumes. Customers remain reluctant to give us more
5 volume and are resistant to price increases until this case
6 is decided. For example, one customer whom we typically
7 have an annual contract in place by this time of the year,
8 has agreed to a contract only lasting a few months, to
9 expire around the time the results of this case are due.

10 Another retail customer agreed to a slight
11 price increase, less than what we had offered, but only as
12 long as this investigation is ongoing. There is no question
13 that these customers will continue buying from low-priced
14 imports if anti-dumping and countervailing duty orders are
15 not imposed.

16 Worthington has lost significant sales simply
17 because we cannot compete with the low prices the foreign
18 producers are offering, which are often below our costs.
19 When we have been able to maintain sales, it has been at the
20 expense of our profit margin. Although we have been able to
21 raise prices with some customers since we filed this case,
22 we have not been able to do so at levels that will allow us
23 to recover our rising costs.

24 Customers continue to demonstrate their access
25 to imports to push back on our attempts to raise prices.

1 The results has been an ongoing cost-price squeeze that
2 makes it difficult for us to maintain decent profit margins.
3 In a price sensitive market, unfairly low prices offered by
4 foreign producers on a substitutable product have made it
5 extremely difficult to retain business. We're not losing
6 business for reasons of quality, delivery, service or
7 supply. Worthington is losing sales to imports on the basis
8 of price.

9 We cannot remain competitive in the steel
10 propane cylinders industry if we are faced with a choice of
11 losing money to maintain sales, or losing sales to maintain
12 margins. Unfair pricing will force us out of this industry.
13 On behalf of Worthington and our employees, I ask you to not
14 let this happen. Thank you.

15 STATEMENT OF JAMES BOWES

16 MR. BOWES: Good morning. My name is James Bowes
17 and I'm the Business Director of Low Pressure Cylinders for
18 Worthington Industries. I have worked in various functions
19 across the company for 10 years.

20 Today I am here to discuss the dire condition of
21 Worthington Steel Propane Cylinder business as a result of
22 unfairly traded imports from China and Thailand.

23 As mentioned by Mr. Komlosi, Worthington
24 Industries began as a steel processing facility in Columbus,
25 Ohio, in 1955. The company has expanded substantially since

1 then, but steel processing continues to be our core
2 competency.

3 Worthington is a major steel purchaser, and we
4 leverage our purchasing power to ensure that our operations,
5 including propane cylinders, are as efficient and cost
6 effective as possible. In order to maintain our
7 competitiveness, our manufacturing process uses high-volume
8 automated production lines that are devoted solely to the
9 production of propane cylinders.

10 While our largely automated production process
11 and steel purchasing efficiencies have long worked in our
12 favor, we have nevertheless lost customers to the subject
13 imports and seen our financial performance on steel propane
14 cylinders destroyed, as detailed in our questionnaire
15 response.

16 As you've heard, Worthington has lost most of our
17 sales to RV customers and desperately needs to maintain
18 volume to justify production on an economic basis. Because
19 of the importance of maintaining reasonable production
20 volumes, we do everything we can to prevent the loss of our
21 remaining customers to unfairly traded imports.
22 Unfortunately, that usually means we take a beating on
23 price.

24 The significant volumes of lower priced imports
25 in the market have forced us to keep our prices low just to

1 maintain sales to our remaining large customers. In fact,
2 subject import pricing influences all of our sales to our
3 remaining customers.

4 Here is why--and this is key: The major club
5 stores are buying subject imports. They have the lowest
6 shelf price to consumers. Other retailers have to compete
7 with the club stores--other retailers that have to compete
8 with the club stores have been keying off of the lowest
9 consumer price to keep our similar prices low.

10 Then you get to the gas exchangers. They need to
11 get the consumer to choose the propane exchange route that
12 is outside the front of the retail store, rather than buying
13 an empty cylinder inside the store to fill themselves. As a
14 result, the gas exchangers demand low prices from us in
15 order for them to be able to compete with the retail shelf
16 price.

17 That low shelf price at the club stores for
18 imported cylinders ripples through and drives the price in
19 the rest of the market. So the price that we end up
20 negotiating with the gas exchangers is tied directly back to
21 the club stores which are buying unfairly low priced subject
22 imports.

23 Given this dynamic, we have been unable to
24 increase our prices to cover costs that major customers who
25 have had access to unfairly traded imports for many years.

1 Our price increase announcements in 2018 were meant to
2 address rising costs of steel and other inputs, but they
3 have not covered these costs fully because of import
4 underselling. Shipping higher volumes at unprofitable
5 prices is not a formula for long-term success. It is
6 increasingly difficult to justify our continued production
7 of steel propane cylinders.

8 The decline in our performance is due to Thai and
9 Chinese imports, and it is not attributable to causes such
10 as insufficient capacity or extended lead times as argued by
11 the Respondents.

12 Our questionnaire shows that Worthington had
13 significant capacity available throughout the 2016 and 2018
14 period. Our company was verified by Mr. David Boyland and
15 at verification he concluded that the methodology we used to
16 report our capacity was acceptable.

17 Our Westerville facility is designed to be run 24
18 hours a day 7 days a week, but we are currently running 3
19 production shifts rather than the 4 required to run 24/7.
20 If this case is successful and market conditions improve, we
21 can certainly add another shift to meet increased demand as
22 purchasers return to buying from us.

23 In fact, Worthington has production facilities
24 for other types of gas cylinders that are currently running
25 24/7 in the same Columbus area in which we produce steel

1 propane cylinders. So we know this is feasible.

2 If we could sell propane cylinders at a price
3 that would allow us to make a reasonable profit, we could
4 readily add another shift at Westerville and bring our
5 output of propane cylinders up toward our capacity.

6 While we would not have a problem staffing a
7 fourth shift at Westerville, we do need some level of
8 certainty that there will be ongoing demand for our product,
9 and that such sales will be profitable before we can justify
10 that investment.

11 If Orders are not imposed on imports from China
12 and Thailand through this case, Worthington's prospects will
13 not improve and any additional hiring will not be justified.

14 I would also like to address the claim that
15 extended lead times have justified the expansion of subject
16 imports in the U.S. market. Propane cylinders are a
17 standardized product, so the vast bulk of our production
18 goes into inventory rather than being made to order.

19 Our sales from inventory are shipped in a matter
20 of days, almost always less than a week after the customer
21 places the order. Even when we make a product to order, it
22 is usually produced within two weeks of receiving the order.
23 In contrast, your staff report shows that the majority of
24 subject imports are produced to order or come from overseas
25 inventories, and that lead times on ordered cylinders

1 average 76 days. That is at least 5 times as long as what
2 it takes for us to produce the order, and more than 15 times
3 longer than our shipments out of inventory take.

4 There is absolutely no way imports from China and
5 Thailand have an advantage over us in relation to lead
6 times. That said, there were short periods in 2018 during
7 which Worthington had to work with some customers to make
8 delivery scheduling work.

9 The hurricanes that hit the United States in late
10 2017 and also Hurricane Michael in October of 2018 had the
11 effect of causing short-term spikes in demand for propane
12 cylinders. Under those circumstances, we didn't always have
13 sufficient inventories to meet all demand immediately, and
14 thus pushed out delivery times for some non-traditional
15 customers.

16 Due to the dismal margins we have been realizing
17 on sales of propane cylinders, we have had to postpone
18 important capital projects at our Westerville plant because
19 these projects have not met the financial return needed to
20 justify the investments.

21 In order to update our production equipment, we
22 have a list of pending capital projects of more than \$10
23 million for our Westerville facility. These investments can
24 only be justified, however, if market conditions improve.

25 Worthington's propane cylinder operations are at

1 a crossroads. We need to make capital investments in our
2 Westerville facility in order to ensure our competitiveness
3 going forward, but our financial returns for a long time
4 have been woefully inadequate despite healthy U.S. demand.

5 We need some certainty going forward in order to
6 obtain prices that can cover our costs, including the cost
7 of capital. The only way this can be achieved is if
8 unfairly trade orders on imports from China and Thailand are
9 imposed through an affirmative finding in this case.

10 That concludes my testimony. I thank you for
11 your attention.

12 MR. ROSENTHAL: Good morning again. Paul
13 Rosenthal on behalf of the Petitioners. I am going to use
14 the remaining time this morning to summarize the key data
15 that you have in the record, and to rebut some of the
16 arguments that have been made by the Respondents at the
17 staff conference and in their prehearing brief.

18 The first slide this morning, which is
19 effectively slide 2, is a picture of typical 20-pound
20 capacity propane cylinders. Two of these cylinders are
21 made by the domestic industry, and one by the foreign
22 producers and marketed under the name Flame King.

23 These are pictures of 20-pound capacity cylinders
24 usually used for household barbeques, fire pits, and outdoor
25 heat lamps. One of the witnesses for Respondents, Mr.

1 Newman, the distributor Flame King, testified at the staff
2 conference that, and I quote, "you would not be able to tell
3 the difference between these cylinders" end quote.

4 These products are, regardless of producer, are
5 completely interchangeable. And let's face it, at the
6 purchase the cylinders are usually hidden from view in a
7 barbeque, a fire pit, or a recreational vehicle. And gas
8 distributors are often kept in cages, so you don't get to
9 see them up close. As much as it pains my clients, these
10 cylinders are not bought on the basis of looks or features,
11 but on the basis of price.

12 So I'm guessing you don't need for me to identify
13 the next picture. Most of the--well, the 30-pound RV--
14 30-pound cylinders go into the RV industry, which is a major
15 consumer of propane cylinders, as the cylinders are used for
16 cooking, heating, and other purposes on the vehicle.

17 If you look at the back corner of the picture,
18 you'll see a compartment. And if you open the compartment,
19 you would see a couple of gas cylinders that are sold to the
20 industry in the 30-pound size. And if the industry--if the
21 Commission understands the injury caused by the imports, it
22 must understand, as I said at the outset, some of the
23 history preceding the Period of Investigation, because in
24 many respects this is a case of a tale of two cylinders.
25 First, the imports of 30-pound cylinders. And then 20

1 continued the assault.

2 The next slide depicts the map of Elkhart,
3 Indiana, which is the heart of the recreational vehicle
4 production in this country. Manchester Tank built a steel
5 propane cylinder manufacturing plant in that area to be
6 close to its RV customers. It is only a slight
7 exaggeration to say that you could roll a propane cylinder
8 down the road from Manchester's factory and hit an RV
9 production site.

10 Worthington's production facilities are only a
11 few hours down the road, as you heard, in Ohio, perhaps too
12 far for rolling the cylinders, but a short truck ride away.
13 Manchester and Worthington are first-class manufacturers who
14 make a quality product and provide exemplary service. They
15 are efficient and attentive to their customers. But as you
16 heard, around 2006 and then continuing into the Great
17 Recession, RV sales have plummeted and, desperate to lower
18 their prices, many RV producers decided to abandon their
19 reliance on domestic steel propane cylinder producers and
20 turn instead to imports.

21 It is worth noting that by that time both
22 Manchester and Worthington had been in business for many
23 decades. They did not, as you heard, all of a sudden forget
24 how to make quality steel propane cylinders. Indeed, they
25 were then and continue to sell high-quality propane

1 cylinders through exchangers and retailers at the same time
2 as the RV customers shifted away to imports.

3 There is only one reason for this behavior by the
4 RV customers: Lower prices offered by the imports. And I
5 will add, as well, you've heard at the staff conference and
6 you'll hear again how--the claim by Respondents that, oh,
7 the domestic industry doesn't call on the RV industry
8 anymore. They've abandoned us.

9 Not true. You will hear from--and I urge you to
10 ask our witnesses--whether they call on the RV customers,
11 and how often they do so. It is a constant thing where
12 they're trying to get the RV business back and expanded.

13 The next slide is a slide that is confidential,
14 and it depicts the RV customers' pivot to imports, and in
15 particular shows the history of one of the producers, and
16 shows that the sales by that domestic producer of 30-pound
17 cylinders to RV customers fell and has never recovered.

18 At this point, the domestic producers sell a
19 relatively small amount of steel propane cylinders to the RV
20 market, even though the RV sales have grown quite a bit
21 since the Great Recession. Indeed, the recreational vehicle
22 industry has been growing consistently and rapidly in recent
23 years, but the RV industry's reliance on low-priced imported
24 cylinders has continued unabated despite the efforts by the
25 domestic producers that are ongoing to sell to that segment

1 of the industry.

2 The next confidential slide is based on the
3 Commission's pricing comparisons, and it tells you exactly
4 why.

5 The imports' share of sales to the RV industry
6 continue to grow, and U.S. producers' share of that customer
7 base declined further over the Period of Investigation. As
8 indicated by this slide, underselling is rampant throughout
9 the Period. As the level of underselling increased, the
10 share of imports' sales decreased. And I note this is the
11 Period of Investigation that we all agree upon. It's not a
12 prior period. We're not talking about history here, despite
13 the claim by Mr. Menegaz. This is a continuation of the
14 trend that started prior to the Period of Investigation, but
15 continues to this day.

16 So, turning to the next slide, as you consider
17 injury in the Period since 2015, which was the start of the
18 Period of Investigation when we launched this case, it is
19 important to remember that imports had already increased
20 significantly and we're starting the Period of Investigation
21 with a significant share of the market. And I want to
22 remind the Commission that the standard is significant
23 volume, significant price underselling, not increased. But
24 here it was significant and increasing.

25 So we started with a significant share of the

1 market that had been gained through underselling, and that
2 also means that the domestic industry entered this Period of
3 Investigation with lower profitability and capacity
4 utilization thanks to the earlier import surge.

5 As Slide 8 shows, that import surge has continued
6 unabated, starting at a significant level and continuing to
7 grow and import volumes are now at record levels.

8 Slide 9 shows that, had this case not been filed
9 in May of this year, subject imports were on track to reach
10 an even higher record. It's only the filing of this case
11 that arrested that import surge.

12 Slide 10 shows you that as the absolute level of
13 subject imports has grown, so too has the imports' market
14 share. Import market share, as well, is significant.

15 MR. ROSENTHAL: Slide 11 demonstrates the
16 subject imports growth has come at the expense of the
17 domestic industry as the U.S. producers market share
18 declined from 2015. That market share decline leveled off
19 in 2018 after the filing of this case.

20 As you've heard, the market for steel propane
21 cylinders has grown in recent years, but subject imports'
22 growth has far exceeded the growth of the U.S. market. So,
23 while the U.S. producers have been able to increase sales
24 modestly, they continue to suffer erosion of their market
25 share.

1 Slide 13 gives you an indication why imports
2 have grown so rapidly -- low price. The chart summarizes
3 the results of the underselling data compiled by the
4 Commission. As you can see, subject imports have undersold
5 the U.S. product in the vast majority of the quarterly
6 comparisons and an even larger majority of the comparisons
7 based on volume.

8 If you turn to the next slide, you'll see that
9 U.S. purchasers confirmed to the Commission that imports are
10 lower priced and they bought imports instead of domestic
11 product for that reason. The volume shifts to imports due
12 to the lower prices were significant. Please note that the
13 column to the far right gives to figures for the quantity of
14 lower-priced subject imports purchased instead of the
15 domestic product.

16 Now, note, the first figure in that column comes
17 from the staff report and is updated to include a late
18 purchaser response. It's quite a substantial number. But
19 even that number is vastly understated. There's another
20 number in that column at the bottom that is more accurate
21 and a more fair representation to actually rely upon. The
22 reasons for this larger number is proprietary, but I urge
23 you to review our brief -- our prehearing brief at pages 24
24 and 25 and Exhibit 1 to explain why this larger number is
25 appropriate; having said that, even the smaller number is

1 quite large and significant.

2 Turning next to Slide 15, I want to address some
3 of the -- well, notions that the Respondents have provided
4 with some novel excuses to deflect from the record
5 information regarding the primacy of price. They simply
6 cannot deny or contradict the words of the purchasers who
7 confirm that the sales of propane cylinders are all about
8 price. Please take a minute to read these quotes. It's
9 worth it. These are from purchasers against whose interest
10 these admissions are made.

11 If you take another minute -- actually, take
12 even a longer time to read the quotes on the next slide.
13 This first quote demonstrates how a U.S. producer -- sorry
14 -- U.S. producer lower its price to this particular customer
15 and still didn't get the sale. We presented this quote at
16 the staff conference as it was derived from the customer's
17 original questionnaire response.

18 Please also study the second quote on the page.
19 Putting aside the antitrust implications, this quote
20 demonstrates several things from this same customer; first,
21 the importance of price; second, that the customers at issue
22 could actually buy the domestic industry cylinders. There's
23 no other reason than price not to do so. And third, they
24 suggest a protectoral strategy that's being pursued by
25 certain parties in these proceedings. We'll give you that

1 complete email exchange in our post-hearing brief.

2 Next slide, 17, cost have fluctuated during the
3 period of investigation. Sometimes they went down, as they
4 did early in this period of investigation, and sometimes
5 they went up, as they did in the later part of the period of
6 investigation. But as this next slide, 17, shows unit sales
7 values could not keep up with the cost of goods sold. As
8 your data showed, that gap has widened. Moreover, as you
9 heard from the industry witnesses, customers expect to
10 receive lower prices when costs are declining, but are not
11 so willing to accept the higher price when costs are
12 increasing because of the availability of low-priced
13 imports. The result has been financial injury throughout
14 the period of investigation, as detailed in Slide 18.

15 This slide summarizes the information on
16 profitability, which I cannot discuss publicly. Suffice to
17 say it's not a positive picture. There are a couple of key
18 take-aways. First, the period of investigation started with
19 anemic, inadequate profitability due to the import pressure
20 that preceded the POI and continued throughout. Second,
21 profitability went from bad to worse over the POI. Third,
22 these levels of profitability are simply not sustainable.
23 You heard Mr. Bowes talk about the \$10 million worth of
24 investments they need to make and prepared to make in the
25 Worthington facility in Westerville, Ohio, but there's got

1 to be an economic justification for making these investments
2 and with the profitability as bad as it's been throughout
3 the period of investigation it's been hard to justify making
4 that and those investments.

5 By the way, Mr. Dugan mentioned in his opening
6 and in their brief the Respondents have made a lot of
7 arguments with respect to the decline in profitability in
8 2018 as a result of the 232 tariffs and the 301s. 2018 was
9 a bad year to be sure, but the industry was being injured
10 throughout the period of investigation, as the Commission
11 noted preliminarily and that was even before the 2018 data
12 were available.

13 Slide 19 goes to the issue of causation and
14 makes clear that the growth in subject imports directly
15 displaced the market share of the domestic industry. And
16 Slide 20 reaffirms the causal relationship between the
17 lower-priced imports and the financial condition of the
18 domestic industry as it shows that the domestic industry
19 profit ratios, as I said, were abysmal throughout the POI
20 and declined as the subject imports gained additional market
21 share over the period of investigation.

22 While this slide hammers home our point about
23 import volumes, as you've heard from the industry witnesses,
24 prices have been suppressed because U.S. producers have been
25 unable to increase prices without risking further loss of

1 sales. This industry -- and you've seen the capacity
2 utilization figures -- this industry cannot afford to lose
3 more volume and stay in business.

4 Turning now to Slide 21, I want to talk about
5 some of the Respondents' arguments they raised preliminarily
6 and in their recent prehearing brief. Two can be dispensed
7 very quickly. First, the non-subject imports could not have
8 hurt the domestic industry because they're virtually none to
9 speak of. And second, as indicated by Slide 12 that you saw
10 earlier, the domestic industry injury cannot be related to
11 demand as demand has increased. So, Slide 21 directly
12 addresses Respondents' claim about lead times and we heard
13 one of our witnesses talk about that earlier.

14 Respondents have argued that the purchasers have
15 turned to subject imports because of lead times, but if you
16 review this slide which presents the facts of record on this
17 issue all of which show that domestic producers have a
18 significant advantage over subject imports when it comes to
19 lead times. Generally, domestic industry lead times are a
20 fraction of those reported for the foreign producers. And
21 as you heard Mr. Bowes say, occasionally, those lead times
22 have been extended when there have been hurricanes or other
23 emergencies have caused unexpected spikes in demand.

24 When companies who are not regular customers
25 approach the domestic producers with a spot purchase

1 request, it's not surprising that the order cannot be
2 supplied quickly in the wake of those natural disasters.
3 The truth is, though, neither can foreign producers meet
4 such urgent requests. And in fact, if you turn to the next
5 slide, the Respondents admitted as much at the preliminary
6 staff conference. Take a minute to read these quotes.
7 Importers acknowledged that they have a lot of supply issues
8 caused by port strikes, weather -- the same weather that
9 affect the domestic industry -- and other transportation
10 issues.

11 Indeed, the witness from Flame King,
12 acknowledged that the domestic industry "always" has an
13 advantage during emergency spikes in demand in the U.S.
14 market.

15 Let's turn to Slide 23 and address another claim
16 made by the Respondents with respect to the alleged superior
17 quality of the imports that our argument is also unsupported
18 by the record. As you've heard, steel propane cylinders
19 from all sources are extremely interchangeable. Domestic
20 producers offer tanks made from high quality steel with the
21 same bells and whistles that imports offer and the allegedly
22 superior imports are being offered at a lower price, which
23 the Commission has repeatedly found is inconsistent with
24 claims of higher quality.

25 The next couple of slides are kind of related to

1 one another and I hope you can bear with me on this because
2 they go directly to the efforts made by the Respondents to,
3 number one, talk about a highly segmented industry where one
4 does not exist. But even adopting their methodology, we
5 want to explain why their arguments don't hold together. In
6 fact, the data support the Petitioner's case, not the
7 Respondents.

8 The Chinese Respondents argue that the domestic
9 industry was able to raise its prices most in the channels
10 of sales in which the Respondents were most active and
11 claims that this means that "Therefore, there is no
12 correlation between any arguable competition with subject
13 imports and depressing the rate of growth in domestic
14 industry prices." You see that at their prehearing brief at
15 page 42.

16 What the Respondents ignore is that any channel
17 of trade to any customer set in which the domestic producers
18 did raise price they immediately lost market share to
19 subject imports. That's borne out by the pricing data
20 collected by the Commission. The pricing products that
21 Respondents claimed showed the largest price increase during
22 the period of investigation by domestic producers was to
23 sales to distributors, which were Pricing Products 3 and 5,
24 which Respondents claim show a price increase from 2016 to
25 2018.

1 Importantly, as indicated in this slide, subject
2 imports undersold the domestic industry in a very high
3 percentage of pricing comparisons. As the domestic
4 producers attempted to raise prices, their sales volumes
5 fell significantly, even though demand by these customers
6 was increasing. Moreover, the domestic producers' price
7 increases lead to a loss of market share of these customers
8 to the subject imports.

9 The same trend is presented in sales to RV
10 customers in this next slide, 25, and involve Pricing
11 Products 1 and 6. Respondents claim that the domestic
12 industry's AUVs to these customers increased over the period
13 of investigation. Throughout the POI, subject imports
14 undersold the domestic industry. This slide, again, shows
15 where domestic producers made an effort to raise prices the
16 result was that the subject import volume and market share
17 went up at the expense of the domestic industry. In this
18 case, the domestic industry lost further market share to
19 subject imports which were underselling the domestic
20 industry uniformly.

21 Slide 26 addresses the same pattern with respect
22 to retailers. The Respondents note that the domestic
23 producers only raised prices with respect to retailers by a
24 relatively small percentage. In this channel of trade, the
25 record shows that subject imports oversold the domestic

1 industry in 65 percent of quarterly comparisons. What this
2 slide shows is that where the domestic industry chose to
3 forego price increases to cover rising costs and price under
4 the import price it was usually able to maintain these
5 customers' business each year and did not lose the market
6 share to the subject imports.

7 So, to summarize, and I'm turning to Slide 27
8 now, the domestic industry experience with these three types
9 of customers informed them what they could not afford to do
10 with their largest customer base, the gas exchangers. These
11 customers account for the largest share of all propane
12 cylinder sales. Moreover, while subject imports had not
13 made as many inroads into the gas exchanges yet, when they
14 did sell to gas exchangers they undersold 80 percent in
15 quarterly pricing. And by the way, they were able to get
16 some sales from gas exchanges and the record will show that.

17 Based on their experiences with these customer
18 groups and given the importance of the gas exchangers to the
19 domestic industry, domestic producers knew and know that
20 they had to limit their price increases to these customers.
21 Moreover, knowing that the gas exchangers are in competition
22 with the retailers, as you heard from Mr. Bowes, Petitioners
23 knew that gas exchangers would not accept prices that were
24 not competitive with retailers whose pricing was effectively
25 set by the subject imports.

1 So, Slide 27 explains and the record supports,
2 first, price is paramount. Second, if you raise your
3 prices, you lose market share. Third, if you keep your
4 prices low, you keep your volume, but you do so at the cost
5 of declining profitability. The gas exchangers are well
6 aware of import pricing and have seen low-price offers from
7 subject imports themselves and to their retail competitors.
8 Having lost market share to other customers, the domestic
9 producers could not afford to lose the volumes in large
10 portions to their biggest customers. Losing these
11 customers' business is tantamount to taking the next step
12 out of business.

13 So, with that, I want to conclude our direct
14 presentation this morning. Before we answer questions, I
15 want to introduce some of the other people who might answer
16 your questions this morning, my colleagues, Al Luberta,
17 Brooke Ringel, and Michael Kervin, and from Worthington
18 Industries, Scott Viebranz and Dale Brinkman. Thank you
19 very much.

20 CHAIRMAN JOHANSON: I will begin Commissioner
21 questions today. I thank you all for appearing here and you
22 all produce a very interesting product. I'm somewhat
23 familiar with it. I'd like to begin questions with an issue
24 that was raised by Mr. Rosenthal and others. Mr. Rosenthal
25 suggested we dig into it a bit deeper, so I think I'm gonna

1 start questions by doing so.

2 Respondents argue that U.S. producers have been
3 unable to supply adequate quantities in segments of the U.S.
4 market, in which subject imports participate significantly.
5 They specifically identify RV manufacturers and distributors
6 and cite reports that such customers have never been
7 approached by U.S. producers or were quoted stringent sales
8 terms and long lead times that were unacceptable to these
9 customers.

10 They contend that subject imports have increased
11 mostly in these two segments to accommodate customers who
12 have been neglected by U.S. producers. And this is all at
13 Page 10 of the respondents' brief. How do you respond to
14 this argument? And has the domestic industry neglected
15 these parts of the U.S. market?

16 MR. KOMLOSI: This is Mark Komlosi with
17 Worthington. We have not neglected that segment of the
18 industry, the RV industry. We have a territory manager that
19 actively calls on the RV distributors and occasionally the
20 RV manufacturers.

21 MR. VIEBRANZ: I'm Scott Viebranz, VP sales for
22 propane and chemical for Manchester Tank. While
23 Worthington's a lovely company, we're from Manchester Tank.
24 We have a plant in Elkhart. We have a sales rep living in
25 Elkhart in the area. We already sell other tanks for other

1 uses in motorized vehicles and RV. And we sell to all these
2 customers. So we have relationships with these customers.
3 We have quoted these customers multiple times in the last
4 few years, and every time we have not been awarded the
5 business and every time we ask, the answer is price.

6 MR. BOWES: James Bowes with Worthington. I'll
7 add to Mark's statement. Not only have we not neglected the
8 RV industry, we actively sell to them. We shipped to them
9 throughout Calendar Year '18, we shipped to them this week,
10 last week. We do not neglect calling on them. We do not
11 neglect shipping to them.

12 CHAIRMAN JOHANSON: Mr. Viebranz, you stated that
13 every time you try to sell to the RV manufacturers, they
14 come back and say the price is the issue. I know you all
15 have a pretty good record here, but would you mind
16 submitting more information that might document that?

17 MR. VIEBRANZ: Sure can.

18 CHAIRMAN JOHANSON: Is that a possibility? For
19 the post-hearing?

20 MR. VIEBRANZ: Yes, we could.

21 CHAIRMAN JOHANSON: Okay. That would be helpful.
22 Thank you. Let me ask another question. U.S. producers
23 have reported low capacity utilization, yet a number of
24 purchasers have reported that lead times have increased, and
25 this is discussed at Page 215 of the staff report. Why have

1 lead times increased in your experience? Or do you dispute
2 that this has even happened?

3 MR. KOMLOSI: This is Mark Komlosi with
4 Worthington. Over the period of investigation, there was a
5 unprecedented event in late 2017 where there was a
6 succession of hurricanes in Texas, Florida and Puerto Rico.
7 Unfortunately, natural disasters drive demand for our
8 product and that was, you know, all of our customers came
9 calling, needed cylinders at the same time and that's really
10 the only time the lead times got extended.

11 MR. VIEBRANZ: And we experienced the same
12 scenario with the unprecedented hurricanes in '17 as well.

13 MR. ROSENTHAL: Commissioner Johanson, just to be
14 clear, I think -- this is Paul Rosenthal -- as you heard,
15 the cylinders are mostly sold out of inventory, so the
16 industry is building inventory throughout the year,
17 particularly in the second half of the year, 2017, you had
18 these unprecedented series of hurricanes. I know there's
19 another one in 2018, Michael, that hit the panhandle of
20 Florida.

21 What happened was, there's so much demand, at the
22 same time, obviously there wasn't enough inventory built at
23 that time, and neither the foreign producers, who were
24 shipping over here, had enough inventory, nor the domestic
25 industry had to satisfy those emergency situations, and it

1 took a while to rebuild that inventory. It wasn't as if the
2 domestic industry could plan for that. They couldn't just
3 add a shift at that point for a short--what could be just a
4 short--period of time.

5 The other thing, the other phenomenon that I
6 think is fair to say happened, is that obviously when folks,
7 let's say, from the RV industry, who hadn't been buying from
8 the domestic industry, were caught with the same shortages
9 due to the hurricane, they went to their foreign producer
10 importer suppliers and said, "Can you get us that product
11 now?" And the foreign producer said, "No, we can't."

12 So they then, as they backstopped, asked the
13 domestic industry producers, and the domestic industry
14 producers said, "We're producing as fast as we can. We will
15 get you this product, but we need to rebuild and we have to
16 supply the customers with whom we already have the
17 contractual relationship. We just can't supply you
18 immediately on a spot basis 'cuz you showed up at our
19 door." So it was a very understandable and logical delay,
20 but certainly there's enough capacity overall to supply the
21 RV industry over the long haul, just not in these emergency
22 situations.

23 CHAIRMAN JOHANSON: All right, thank you, Mr.
24 Rosenthal and others for clarifying that. The pricing data
25 show that the price in the gas exchange market is lower than

1 prices in other parts of the market, yet there's less
2 evidence of competition from subject imports in this segment
3 of the market. Why are domestic industry's selling prices
4 lower in the gas exchange part of the market than in other
5 segments of the market?

6 MR. BOWES: James Bowes with Worthington. In the
7 gas exchange customer base, there's two large customers, two
8 large, very well-known exchange customers that buy
9 significant amount of volume. So in this business, the more
10 volume you buy, more price discount you get. There's no
11 other customers close to the volume that those two customers
12 buy. And they're both, again, in the gas exchange segment
13 or customer base.

14 MR. PAGE: This is Ruffner Page with Manchester.
15 The economics between the big box retailer that sells an
16 empty cylinder and then that individual that buys it, goes
17 and gets it filled independent of the exchangers, is a
18 competitive channel for our customer. Both the customers
19 are different channels for their end customer, so the
20 exchanger has to be competitive with the big box retailer,
21 even though the cage is actually literally outside of the
22 store.

23 It's just another methodology to get the customer
24 and the ease of getting the propane by exchanging the
25 cylinder at the location, as opposed to going to the big box

1 retailer and then having to get in the car and drive to
2 another location to have it filled. So there's a direct
3 causal link between those two channels to the end user and
4 as the big box retailers who buy, I think predominantly
5 imported product, drive down that price.

6 The exchangers continue to be under economic
7 pressure to have a lower cost alternative to that. So
8 there's a linkage between it. Because the cylinder is
9 exactly the same thing, it's just going through a different
10 retailer.

11 MR. BOWES: James Bowes with Worthington. I'll
12 add to Mr. Page's statement there and refer back to the
13 testimony that I made, is the ripple effect. So Mr. Page
14 mentioned big box retailers buying from Asia, from Thailand
15 and China, but in reality, it's the wholesaler discount, the
16 club stores. Their shelf price is visible to the public, to
17 anybody, so for the discounters or the club stores have a
18 low shelf price due to the low-priced imports they're buying
19 from China and Thailand.

20 The big box, or home improvement stores are gonna
21 base their price slightly higher than that, but they can't
22 have a significant gap. Some of them would be buying from
23 the domestic manufacturers, and then the gas exchangers,
24 that would be outside of the retail, or the home improvement
25 stores, would also be basing that price off of that shelf

1 price as well. So that visible shelf price, again, that's
2 tied to imports from China and Thailand, is rippling through
3 the price that we eventually have to negotiate with gas
4 exchangers.

5 CHAIRMAN JOHANSON: All right, thank you, Mr.
6 Bowes and Mr. Page. My time has expired. Commissioner
7 Williamson.

8 COMMISSIONER WILLIAMSON: Thank you. I do wanna
9 express appreciation to all the witnesses who have come
10 today. Unfortunately, living in the city in an apartment,
11 I'm not as familiar with your product as maybe some other
12 folks are. So let me just clarify something. If you buy
13 from the exchangers, do you buy the original -- does the
14 customer usually buy the original cylinder from them and
15 then just keep on using them? Or could they go to a big box
16 retailer or a club store and get the cylinder and then start
17 using, working with the exchangers?

18 MR. KOMLOSI: This is Mark Komlosi with
19 Worthington. It really depends. If you go to an exchange
20 cage and you do not have a cylinder, you could buy a
21 new-filled cylinder there, or if you have a cylinder, you
22 can exchange it, and you're essentially just buying the
23 propane. So if you don't have a cylinder, most likely you
24 would go the big box store and buy an empty cylinder. And
25 there are some cases where the end consumer buys a empty

1 cylinder in the store, walks outside, puts in a cage and
2 takes a full cylinder.

3 COMMISSIONER WILLIAMSON: Okay.

4 MR. BOWES: James Bowes with Worthington. And I
5 can add a little bit onto that. If it's your first time for
6 a new 20-pound propane barbecue grill propane cylinder --

7 COMMISSIONER WILLIAMSON: You bought a new grill
8 and --

9 MR. BOWES: Yeah. You have two choices. You can
10 buy an empty cylinder inside a store, either at a big box
11 retailer, home improvement store or discount store, club
12 store, that's empty. You buy that, you own that empty
13 cylinder, then you take it to a filling station, and you
14 just pay for the propane, and then you, you know, you have
15 to make two different stops, but then you own that cylinder,
16 you take it home, you use it, when it's empty, you go refill
17 it again. Or -- and that's maybe less convenient for some
18 people, but it certainly is kind of some cost savings there
19 over the long haul.

20 Or, for convenience, you can go to an exchange
21 cabinet and if you don't own the cylinder, your first time
22 you go there to get an exchange, if you can't put an empty
23 cylinder back in the cage, your first time, you do have to
24 pay more. You have to put down a deposit, but after you put
25 that in, you're paying something around \$20 or so,

1 essentially just for the gas. And when your cylinder runs
2 out, you're gonna go back, give them the empty cylinder, pay
3 for a new cylinder.

4 COMMISSIONER WILLIAMSON: Is that, the deposits
5 are equivalent to the cost of an empty cylinder?

6 MR. BOWES: It depends on the exchange customers
7 economics. I'm not sure if I do -- in general.

8 COMMISSIONER WILLIAMSON: Okay. Are there any
9 trends in the industry towards how people are doing, or
10 getting their propane? I mean, are more people using big
11 box stores now, then going to independent to get the gas or
12 what?

13 MR. KOMLOSI: This is Mark Komlosi with
14 Worthington. The trend, because of the convenience, is more
15 exchange. Most people have a barbecue tank, and when it
16 runs out of gas, they'll just go to a local, you know, you
17 can find 'em at gas stations, drug stores, big box stores,
18 there's a number of different places where their exchange
19 cages are available.

20 And the voice, the customer data that we get is
21 essentially, it's a matter of convenience. Millennials, for
22 example, a lot of them don't know you can actually take a
23 empty 20-pound tank to a lawn and garden place or to a
24 U-Haul to get the tank filled. That's based on the research
25 that we've done.

1 MR. BOWES: James Bowes with Worthington, I'll
2 add to that. It really does depend on the economic
3 dynamics. If the empty cylinder price on shelf at a
4 discount store or club store is much less expensive than it
5 is to go the exchange route, consumers who don't worry about
6 convenience as much as they do price, they would be more
7 willing to go to big box retailers, the discounters, to buy
8 empty.

9 So it depends on that shelf price versus the
10 price outside on the exchange, which is impacted by who is
11 supplying the cylinder, whether it's domestic-supplied
12 cylinder or China or Thailand cylinder.

13 COMMISSIONER WILLIAMSON: Thank you.

14 MR. LUBERDA: Commissioner Williamson, I think
15 this goes to Chairman Johanson's point, too, that if you
16 look at the Pricing Products 2 and 4, which are 20-pound
17 cylinders to the exchangers and 20-pound cylinders to the
18 retail segment, you'll see the price relationship that Mr.
19 Bowes talked about in his testimony there, how close that
20 is, then accounting for also the volume discount on top of
21 that. But you'll see the closeness of the price
22 relationship there.

23 COMMISSIONER WILLIAMSON: Okay, thank you. Ms.
24 Ringel?

25 MS. RINGEL: Commissioner Williamson, Brooke

1 Ringel, Kelley Drye. I also just wanted to reiterate the
2 point that was mentioned during previous testimony that the
3 gas exchangers, while they are cylinder customers of the
4 domestic cylinder producers, the relationship between gas
5 exchangers and the consuming public is that gas exchangers
6 are selling propane. They're not selling the cylinder.
7 They're selling the propane, and so the cylinder is part of
8 their cost in terms of selling that propane to the consumer,
9 which is why they are so price sensitive.

10 COMMISSIONER WILLIAMSON: Okay. I have to digest
11 all this. What can you say about the role of imports in
12 this dynamic that we've just discussed?

13 COMMISSIONER WILLIAMSON: And I'm particularly
14 thinking about customers who like convenience, millennials
15 who often don't have cars.

16 MR. BOWES: Yeah, James Rose with Worthington.
17 So I'll just explain the ripple effect again. So it -- the
18 club stores have the lowest empty shelf price. They're
19 always going to have the lowest empty shelf price. They can
20 get a lower empty shelf price because they are being
21 supplied by China and Thailand imports.

22 The big box retailers and home improvement
23 stores, the larger stores, they need to have a certain --
24 they're going to have a certain spread between their shelf
25 price and the club store price. It is currently a larger

1 spread because they are -- some of them are still buying
2 from domestic manufacturers.

3 COMMISSIONER WILLIAMSON: So in the big box
4 stores.

5 MR. BOWES: Yes, some of them.

6 COMMISSIONER WILLIAMSON: Usually in our
7 cases. Go ahead.

8 MR. ROSENTHAL: Yeah, Paul Rosenthal. Some of
9 them, some of them are not, and that's where the dynamic
10 comes in in their negotiations, and that's where they're
11 told we want to buy from you, but you need to lower your
12 price to get closer to those import prices. Otherwise, we
13 won't continue to buy from you. That has been the nature of
14 the discussions.

15 MR. BOWES: And James Bowes with Worthington.
16 The reality is the ones that are still buying from us are
17 starting to see some declines in volume as consumers we
18 assume are going to club stores to buy empty cylinders.

19 MR. PAGE: Commissioner Williamson, this is
20 Ruffner Page. One other aspect of how this is linked across
21 all of the products, even though there are a number of
22 customer groups that we've described, which can be kind of
23 confusing. But because of the cylinders, the exact same
24 cylinder, the customer may be different or the way it gets
25 to the end user may be a little different.

1 But the product itself is the same, and the
2 importers are not manufacturers. So they don't have
3 capacity utilization to worry about. They let their
4 exporter suppliers worry about that. The reason this is all
5 important to link together is as the manufacturer loses the
6 market share, it starts -- we're seeing here with the RVs
7 and it goes to the club stores -- it goes, it migrates into
8 the big box retailers.

9 We continue to lose that margin. There are
10 other exchangers in the United States other than the two
11 big, the ones that have been noted. There are a number of
12 other sort of regional smaller exchangers and we sell to
13 them. But as that migration takes place or that market
14 share loss takes place, obviously we go from producing
15 20,000 cylinders a day to 12,000 cylinders a day.

16 It renders our plants less and less
17 competitive as we lose that market share, and it turns into
18 a self-fulfilling prophecy, that we'll be out of the
19 business if we don't stem this erosion through a favorable
20 ruling. Thank you.

21 COMMISSIONER WILLIAMSON: Good, good. Thank
22 you for those answers. My time is about to expire.

23 CHAIRMAN JOHANSON: Commissioner Schmidtlein.

24 COMMISSIONER SCHMIDTLEIN: Thank you very
25 much. I'd like to thank the witnesses for being here today

1 as well. So let me just follow up on this line of
2 questioning about the price effects across segments. I
3 think that maybe one reason it's a little bit confusing is
4 that we're trying to fit some of these terms like "club
5 stores" and so forth into the data that we have, which has
6 been delineated by distributor, retailer, gas exchanger and
7 RV.

8 So are these -- and I assume by club stores
9 you mean like Sam's Club, something that you have to pay a
10 membership to shop at, right?

11 MR. BOWES: Correct.

12 COMMISSIONER SCHMIDTLEIN: Okay, so and that's
13 different. So the big box stores, you don't have to pay a
14 membership. You can just walk in off the street. You can
15 buy it. So they're able to charge a little bit more
16 because, you know, you don't have that membership fee. So
17 of the club stores, are they considered to be retailers do
18 you think in our data?

19 MR. BOWES: Yes, they are.

20 COMMISSIONER SCHMIDTLEIN: Okay. So they're
21 paying what we see this retail price. And then the big box
22 stores also, those would show up as a retailer here as well?

23 MR. BOWES: Yes.

24 COMMISSIONER SCHMIDTLEIN: And so you're
25 trying to explain that the club stores, or I guess I should

1 start with the big box retailers like Home Depot and so
2 forth, are charging a little bit more, even though they're
3 also getting this for substantially less than what's showing
4 up in let's say the RV segment?

5 MR. BOWES: Correct, yeah, yeah.

6 COMMISSIONER SCHMIDTLEIN: Based on what,
7 okay. So do you think these prices affect at all what's
8 being charged in the RV segment? Is there a cross effect to
9 the RV segment, or is that price competition direct from
10 what's being sold for imports?

11 MR. PAGE: My name's Ruffner Page with
12 Manchester. The RV segment is the end user. So there's
13 some other economic consequences that go into sort of the
14 decision-making for the big box retailer, the club store.
15 For example, the club store may decide that to have a
16 consistently low price on a cylinder will attract customers
17 in and they'll buy other things almost.

18 So that they use it as an economic incentive,
19 because they have access to these ultra-cheap import prices.
20 The RV industry on the other hand is the end user in paying
21 for it. They're not selling it on, although it goes into an
22 RV. They're using sort of the traditional procurement
23 model, that we're going to buy whatever's the cheapest thing
24 we can buy because it's made to a standard, and anything we
25 can reduce, use to reduce our cost we'll reduce our cost

1 because of competitive situations within the RV industry, or
2 just to make the RV more affordable.

3 So that decision has been the driver for the
4 loss of share, because they're significant buyers of 20's
5 and 30's and 40's, and that is the beach head that's been
6 established, that then in turn causes us to lose market
7 share, us to utilize our capacity less so, and it's the
8 beginning of where they then have that stream of volume
9 through the distributor, which is a master distributor that
10 all you need is a letter of credit to get into business,
11 because they don't make anything.

12 Then they say okay, well I'm going to order
13 more next year and I'm going to share that lower price with
14 the club store, and then they migrate into the big box
15 retailers and then on to the exchangers.

16 COMMISSIONER SCHMIDTLEIN: But do you think
17 the pricing pressure from these other segments is putting
18 pressure on the prices in the RV segment I guess was really
19 my question, or is it more the direct competition? I mean I
20 understand that sort of I guess the volume and strategy of,
21 because distributors are selling to RV manufacturers as
22 well, right? Or no?

23 MR. PAGE: The import distributors are.

24 COMMISSIONER SCHMIDTLEIN: Are, okay.

25 MR. PAGE: And we go direct through reps and

1 through -- we also sell through distribution and compete
2 with the distribution that services the RV industry.

3 COMMISSIONER SCHMIDTLEIN: Right. But the RV
4 industry's buying directly as well. They're buying from
5 distributors and they're buying from importers?

6 MR. PAGE: Yes ma'am.

7 COMMISSIONER SCHMIDTLEIN: Right, okay. So I
8 guess -- so my question is, given that they are using a
9 distributor, do you think there's a cross effect? In other
10 words, if these distributors are selling to, you know, these
11 big box stores or I guess retailers and so forth, are that
12 -- is that pricing pressure being transferred to the RV
13 segment, or is it more direct competition for the, you know,
14 the importers that they're buying from directly? Do you
15 understand my question?

16 MR. PAGE: Yes ma'am, I think so.

17 COMMISSIONER SCHMIDTLEIN: Yeah.

18 MR. PAGE: From a historical chronological
19 standpoint, the early penetration into the market was more
20 with the RV group, the wholesalers. The importers are the
21 wholesalers in that business, and as they developed a stream
22 of product and developed a channel by which they developed
23 both supply chain and also the customer base in an effort to
24 grow their business, they've expanded their product offering
25 or the ability to have these imports and become sort of

1 known in the U.S., you know.

2 Procurement folks with big box retailers
3 search around all the time for well who else is getting what
4 and what are they paying for it. It uses a benchmark to
5 then go in and for the club stores and the big box retailers
6 that have significant buying power and a sophisticated
7 buying procurement apparatus, they then in turn can go
8 either to those importers, those distributors that are
9 servicing the RVs, or go independently to another importer
10 and put somebody in business to bring the product in for
11 them.

12 COMMISSIONER SCHMIDTLEIN: Uh-huh, okay.

13 MR. BOWES: James Bowes from Worthington.
14 Just one point of clarification, just so you know. When we
15 -- individuals that own RVs, right, they buy that RV. It
16 comes with a cylinder, as Paul showed in the pictures. Once
17 they own that RV, they own those cylinders. They are now no
18 different than somebody that bought them on the shelf or use
19 exchange, right?

20 COMMISSIONER SCHMIDTLEIN: Right.

21 MR. BOWES: They are now -- so that just
22 reiterating what Mr. Page said, once the imported cylinders
23 are in the RV industry, they can make claims to the rest of
24 the U.S. industry who buy cylinders who say "our cylinders
25 are in your cages. Consumers that own RVs are using our

1 cylinders, putting them in your cage and getting back an
2 empty cylinder."

3 So although the gas exchangers may not have
4 bought directly from importers, they are using imported
5 cylinders which --

6 COMMISSIONER SCHMIDTLEIN: Right, because all
7 the cylinders are interchangeable once they're in a cage,
8 right?

9 MR. BOWES: Correct, correct.

10 COMMISSIONER SCHMIDTLEIN: You don't have to
11 match up the same brand. Okay. Is it your position, is it
12 the domestic industry's position that you've lost market
13 share in each of these segments over the POI?

14 MR. ROSENTHAL: Yes, Commissioner Schmidtlein,
15 it is our position and the record does show that.

16 COMMISSIONER SCHMIDTLEIN: Okay. So even in
17 the gas exchanger segment, even though you were able to
18 increase shipments, you've lost share?

19 MR. ROSENTHAL: Yes. One of the things that
20 -- what you don't -- the answer is yes, as shown in the
21 record but that there's been lost share in each one of
22 those. You don't have the comprehensive view of all the gas
23 exchangers as the witnesses have testified thus far. You've
24 got a couple of big gas exchangers that have been the major
25 focus.

1 But there are a lot of smaller regional gas
2 exchangers to whom sales have been lost and market share has
3 been lost. Only some of that is reflected in the database
4 because they've been harder to get questionnaires from. But
5 we've given you some examples, and in fact let me point to
6 one that appears in one of the confidential slides. Well
7 actually if you take a look at Slide 15, you see the first
8 two quotes are from gas exchangers?

9 COMMISSIONER SCHMIDTLEIN: Right.

10 MR. ROSENTHAL: To whom sales have been lost
11 to imports.

12 COMMISSIONER SCHMIDTLEIN: Yeah, okay.

13 MR. ROSENTHAL: If you don't mind, I just want
14 to add one thing to the previous line of questions
15 concerning the competition between these so-called segments.

16 COMMISSIONER SCHMIDTLEIN: Yeah.

17 MR. ROSENTHAL: We don't necessarily adopt the
18 view that has been urged upon by the Respondents, that these
19 are indeed distinct segments. As you can hear from the
20 testimony today, all these -- first of all, all these
21 prices, no matter which customer base you're selling to, the
22 sales are based on price.

23 And whether -- we're not suggesting that the
24 shelf price that you see at one of the -- at a Sam's Club or
25 something like that, affects the price that the RV

1 distributor offers. That is not the same. But it does
2 affect what the gas exchangers and the other big box stores
3 are saying.

4 But in every customer base, the question is
5 are we buying this because of price or some other reason,
6 and it doesn't matter to whom you're selling. It is because
7 of price. Whether there's cross-competition or not, they
8 all want the lowest price.

9 COMMISSIONER SCHMIDTLEIN: Do you all, and
10 maybe this is similar to what Chairman Johanson asked a few
11 minutes ago, but in terms of your customer bases, do you
12 have -- you know, when you call on a customer, I assume you
13 do that at some point via email or other documentation.

14 Do you have instances that you can put on the
15 record, if you haven't already, of where your customers,
16 whether it's in the distributor segment or the RV segment or
17 gas exchanger, are referencing subject imports as a reason
18 to leverage down the price?

19 MR. ROSENTHAL: We've provided some for the
20 record already. But I can tell you, as we've had more
21 discussions in anticipation of this hearing, we've heard of
22 more examples of that, and we'll put some of that in in
23 declarations and other documentation for the post-hearing
24 brief.

25 COMMISSIONER SCHMIDTLEIN: Okay. That would

1 be helpful. Thank you.

2 CHAIRMAN JOHANSON: Commissioner Kearns.

3 COMMISSIONER KEARNS: Yes. I also want to
4 thank all the witnesses for being here. Just to follow up
5 on something you said just a second ago Mr. Rosenthal, if I
6 heard you correctly, I think you're suggesting that, you
7 know, while there are links between the different segments,
8 your point is if you look at each individual segment, every
9 one of those segments cares primarily about price.

10 And you see, as you show in your slides,
11 either underselling for those segments, or you see matching
12 the prices, in which case then the prices will have to be
13 drawn down to the subject import level. Is that your point?
14 In other words, it's worth talking about the links between
15 the segments, and I'm going to have some questions more
16 about that.

17 But your point is you rarely need to get to
18 the looking at those links between the different segments.
19 If there's some reason to think well, the underselling's
20 over here, but then over here we see the volumes. But
21 you're saying if you look at each individual segment, you'll
22 see injury in each individual segment?

23 MR. ROSENTHAL: That is correct, and we don't
24 even like to talk about those segments, Commissioner Kearns.
25 These are different customer bases and but they're all

1 buying the same product. This is not, you know, even in
2 some other cases you're used to, where you'll see a steel
3 product that may be sold to the auto industry and then may
4 be sold to the industrial uses, the same issue is why are
5 people buying. It's price.

6 We're not saying that there's any difference
7 here. Same product, same dynamics that are taking place,
8 why a product is bought. It's about price. It just so
9 happens in this particular industry there is competition
10 between all these different segments, and they will look
11 over the shoulder and see what is being offered because
12 consumers can go to several different places to buy exactly
13 the same product.

14 But your summary is correct, and in every
15 instance, the bigger the customer and because of the history
16 and the dynamics here, the unwillingness by the domestic
17 industry to cede further volume, given their low capacity
18 utilization rates, is a big driver here and why they are
19 being forced to match the pricing of imports and prevent
20 further volume losses.

21 I'm glad Commissioner Schmidtlein asked about
22 the additional examples of losing market share to
23 exchangers, because as indicated in those quotes on Slide
24 13, yes there have been sales lost to exchangers, and that
25 has been let's just say a very stark message to the domestic

1 producer, saying if you don't want to lose more, you'd
2 better keep your prices competitive with the imports.

3 COMMISSIONER KEARNS: Okay. Well that's all
4 very helpful. But just to push back a little bit on some of
5 this, I'm looking at, and this is proprietary, the chart is.
6 There's a chart on page 52 of Respondent's brief that I
7 found quite interesting about price, you know, showing sort
8 of the U.S. industry's -- how important Product 2 is for the
9 U.S. industry. In other words, how important gas exchangers
10 are to the U.S. industry.

11 Of course the point they make here is, you
12 know, it's a huge part of the U.S. industry's overall sales.
13 There's almost no subject imports there, and yet price
14 increases are lower there. I know you've gone over this
15 quite a bit, but why -- I mean wouldn't I expect to see the
16 price increase be the highest there, where the U.S. industry
17 faces the -- is most insulated from imports?

18 MR. ROSENTHAL: That's exactly the point.
19 They've got it backwards. The reason why there aren't more
20 price increases is because they can't afford to increase
21 their price, otherwise they'd lose market share.

22 And if you go to Slides 24, 25, 26, and 27, you
23 can see that the reason why they have maintained the volume
24 there is because they haven't increased the prices as much
25 as they would like because of the direct and indirect effect

1 of import pricing.

2 COMMISSIONER KEARNS: Okay, that's helpful.

3 Thank you.

4 But now I would like to talk about sort of the
5 overlap in the segments. And I guess I'll have to give you
6 my experience. I have three propane tanks with my gas tank
7 because we barbeque a lot.

8 MR. ROSENTHAL: You're making Commissioner
9 Williamson feel bad.

10 (Laughter.)

11 COMMISSIONER KEARNS: I'll invite him over to my
12 place for a barbeque sometime. So I go to the gas exchange
13 at my local hardware store very regularly, and it never
14 dawned on me that I could have gone into the--I don't even
15 know if our hardware store sells, you know, empty propane
16 tanks. So if you guys can document more posthearing, I
17 guess, the connection between the two.

18 For example, I don't know if there are
19 contemporaneous internal emails where you all talk about
20 what price you can charge exchanges, and how it ties back to
21 what the big box stores, or the clubs, or whatever they're
22 saying. But, you know, it never dawned on me that I should
23 be like thinking about the deposit price I had to pay at my
24 gas exchange and comparing it to the price I could have
25 paid, or maybe a lower price, and filled the tank myself. I

1 don't even know where I would fill the propane tank myself.

2 So, you know, I'd love a response to that now,
3 but also anything posthearing to just sort of show that this
4 isn't something you all just made up, that you guys--this is
5 something you deal with all the time, the connection between
6 the two.

7 MR. ROSENTHAL: I'm going to have Mr. Bowes talk
8 about this, but I'm not an expert either, even though I have
9 one of these, but because I'm barbequing Bris, you know, and
10 drinking Chablis with that. Those of us within the Beltway
11 are really not very good witnesses when it comes to the
12 alternative and less convenient sources of propane tanks.

13 MR. BOWES: James Bowes with Worthington. I
14 guess I'll keep this brief and we can expand much more in
15 the posthearing brief. But I'll reference a recent
16 conversation with an exchange customer negotiation where
17 they certainly did reference price on shelf inside, and the
18 impact that that would have to their business.

19 So in some instances where they were seeing
20 price-on-shelf increase, and theirs has yet to increase
21 outside, they are seeing increased volume. In certain
22 instances where price-on-shelf has declined, but outside
23 store again their price maybe hasn't changed, they are
24 seeing volume decline outside.

25 So they have certainly referenced that recently,

1 and we can again expand on that in the posthearing brief.

2 COMMISSIONER KEARNS: That would be perfect. I
3 appreciate that. Thank you.

4 Oh, teeing off of one other comment I heard a
5 minute ago, and I forget which of the witnesses said this,
6 but one of the witnesses suggested, as I guess you are right
7 now, Mr. Bowes, that the gas exchanges--there is evidence of
8 gas exchanges essentially, I guess, losing market share to
9 big box stores selling the tanks themselves.

10 And I'm surprised by this, because our data--and
11 I think something that the Respondents have pointed out in
12 their briefs--is almost all of the growth in this industry
13 has come from the growth among gas exchanges. So they seem
14 to be taking off the most. They don't seem to be suffering
15 from the other segments selling more empty cylinders.

16 So I don't know if you can speak to that? I
17 mean, why are we seeing so much growth in gas exchange--in
18 the gas exchange segment versus the other segments?

19 MR. PAGE: Commissioner Kearns, this is Ruffner
20 Page with Manchester. If you go back 20 years ago when a
21 gas grill was built in the United States, which I don't
22 think they are anymore, you got a cylinder with it. And so
23 some of the growth that you've seen is really a shifting of
24 share. I'm sure there's some absolute demand growth because
25 there are more people in the United States than there were

1 25 years ago, but some of that is also reflected in just the
2 model that the exchanger deploys becoming more practical
3 and effective as a result of the gas grills used to be made
4 here and we would sell that grill manufacture, and it would
5 come with a cylinder.

6 When the grills went offshore, they would nest
7 the grills for a reduction of shipping costs. You know,
8 instead of it being on top and bottom, they'd flip it and
9 nest it. And so the grill manufacturer stopped providing
10 the cylinder. And that disrupted our methodology of how we
11 got to market, and the exchangers really took off at that
12 point in time.

13 And so that's more of--I think that explains some
14 of it, and if you have three cylinders you probably ought to
15 have a fourth as a backup.

16 (Laughter.)

17 COMMISSIONER KEARNS: Exactly. That kind of
18 seems to be our thinking.

19 MR. KERWIN: Commissioner Kearns, if I could add--
20 -this is Mike Kerwin from Georgetown Economic Services. I
21 think one of the things you may be seeing in the Period of
22 Investigation is what was referenced in relation to these
23 hurricanes, multiple hurricanes that occurred during the
24 Period. And you had a spike in demand for cylinders
25 generally, but I think a lot of that would have been at the

1 gas exchangers because if your power goes out or your
2 connection to natural gas goes out, you're going to need to
3 turn, as an emergency source, to a propane cylinder, whether
4 it's to cook your food or to run a generator, or to, you
5 know, as a heat source. And that's obviously a very simple
6 thing to go and pick up, to just go to an exchange and get
7 one cylinder as opposed to going to a store and going
8 through the whole process of, if you're not familiar with
9 it, of buying a tank and going to fill it up yourself.

10 So I think the convenience of the gas exchanger
11 would be definitely played up in those sort of emergency
12 situations.

13 COMMISSIONER KEARNS: Okay--

14 MR. ROSENTHAL: Commissioner, one last point, and
15 maybe it's stating the obvious, one of the reasons why the
16 gas exchangers have maintained their share in all of this is
17 because they've insisted that the domestic propane cylinder
18 suppliers make sure that their prices are competitive with
19 import prices so they're not losing share to either imports
20 or to the buying clubs or the retailers.

21 And if you look at the pricing, you see it's been
22 very, very rock-bottom and competitive, and the exchangers
23 have said you need to keep doing this. You've seen the
24 examples on page 15. If you don't supply the propane
25 cylinders at competitive prices, we're going to do what

1 these other folks have done.

2 COMMISSIONER KEARNS: Okay, thank you. My time
3 is up.

4 CHAIRMAN JOHANSON: If U.S. producers' imports
5 are removed from the pricing data, the number of quarters of
6 underselling decreases and the number of quarters of
7 overselling increases. Is the Commission's pricing data
8 overstating import competition by channel because of the
9 imports of U.S. producers?

10 MR. LUBERDA: Commissioner Johanson, Al Luberda.
11 No, those are examples of underselling where the domestic
12 producer, and our domestic producers can address I think
13 posthearing why they imported, but they imported at the
14 import prices that were available, a limited amount at
15 least. And if one domestic producer imports some portion,
16 he's competing with the other domestic producers as well.

17 So the Commission has always in the past included
18 all subject imports regardless of who imports them in the
19 underselling data. It still represents underselling
20 domestic product, even when--and sometimes underselling
21 their own domestic product, because they had to make a
22 difficult decision about perhaps losing a customer overall,
23 or deciding to buy at a lower price being offered by the
24 importer because if they didn't buy it somebody else would,
25 and offer that price, and they'd perhaps lose that customer.

1 CHAIRMAN JOHANSON: Okay, thanks, Mr. Luberda.
2 Any clarification you all could provide as to why those
3 imports occurred--I mean, I think I know why, but if you
4 want to at least have any idea.

5 MR. ROSENTHAL: I'm sorry, Commissioner Johanson?
6 Are you asking why they occurred?

7 CHAIRMAN JOHANSON: Right.

8 MR. ROSENTHAL: The testimony that you heard
9 earlier this morning was that--and it came from Mr. Page--
10 two elements are worth restating.

11 One is they occurred because one of their
12 national customers said we need you to lower your price.
13 And the only way that Manchester could do that was by
14 blending in imported cylinders to get a lower average price.
15 And that was the strategy that was employed to satisfy this
16 particular customer.

17 So that was the reason for the pricing as it was.
18 They certainly weren't going to get the sale or be
19 competitive using domestic industry cylinders at domestic
20 industry prices.

21 What Mr. Page went on to say, as well, is that
22 this strategy has not been particularly effective. It has
23 not arrested the appetite for more low-priced imported
24 cylinders. It hasn't helped Manchester overall. And Mr.
25 Page said that they have decided, Manchester has decided, to

1 stop importing the cylinders. They already have had some
2 ordered earlier in the year, but their decision has been to
3 cease that because it doesn't seem to be helping.

4 So I'll let him expand.

5 MR. PAGE: This is Ruffner Page. If I could add
6 to that, I'm the one that made the decision. We have--my
7 experience has been, we have a number of other sort of
8 commodity products that our company, the parent company,
9 makes in which we have import competition. And in my
10 experience it's very difficult to predict sort of the
11 economic scenarios out a year or two years. And so
12 sometimes things are an aberration or sort of temporal in
13 the sense that they don't persist.

14 And so I made a decision early on that this might
15 not be an ongoing chronic situation, it may be somewhat
16 anomalous. There may be some change in the domestic demand
17 in China, or Thailand, or someplace else that would stem
18 this tide. So we made a short-term decision to try and
19 abate the issue during sort of a bridge, or during a window
20 of time. And when we came to learn and understood that this
21 was going to be a persistent, chronic increasing process,
22 then we decided we were going to stop doing that and seek
23 relief to try and keep the plants open.

24 So it was more of a bridge, stopgap effort trying
25 to test out if this was going to be a permanent phenomenon

1 or temporary.

2 CHAIRMAN JOHANSON: Okay, thanks for your
3 response. I apologize. I insinuated from what Mr. Luberda
4 said that some of this was proprietary, but apparently not.

5 MR. LUBERDA: We let our clients make those
6 decisions, sometimes on the fly--

7 CHAIRMAN JOHANSON: Okay, I understand.

8 MR. LUBERDA: I think there's more to it that we
9 will add in the brief, but Mr. Ruffner speaks for his
10 company.

11 CHAIRMAN JOHANSON: And, Mr. Ruffner? Mr. Page,
12 I apologize, Mr. Page--

13 MR. PAGE: It's a family name.

14 CHAIRMAN JOHANSON: I'm sorry, but I've heard you
15 referred to as "Mr. Ruffner," so that's why I was a little
16 confused.

17 Do you import in part because of the supply
18 constraints after the hurricanes that have occurred?

19 MR. PAGE: No, sir.

20 CHAIRMAN JOHANSON: Okay, it was separate from
21 that?

22 MR. PAGE: It was before that. And it was--you
23 know, when you manufacture a commodity product and you have
24 import competition, it's again, my limited experience, to
25 where there's been times in other industries where it's been

1 advantageous to try and buy some imported cylinders and try
2 and understand how the supply chain works, and what the real
3 direct experience is in terms of the quality, in terms of
4 the supply level, and that kind of thing.

5 So there were a host of business reasons that we
6 made that decision prior to the supply chain demand spike
7 that was experienced in the last year, in '17.

8 CHAIRMAN JOHANSON: Alright, thanks, Mr. Page.
9 Citing purchaser reports regarding price leadership,
10 Respondents agree that the domestic producers are price
11 leaders in the U.S. market and compete intensely with one
12 another. And this is discussed on pages 62 to 64 of the
13 Respondent's brief.

14 How does price competition between the domestic
15 producers affect domestic prices?

16 MR. PAGE: Well, I say we both make the product
17 to a spec, a DOT spec. And it's exactly like the story of
18 two people selling apples across the street from each other.
19 If somebody sells them for \$4, and the person across the
20 street sells them for \$3, you're going to have to wait for
21 the \$3 guy to run out of apples before you're going to sell
22 any. So it's a competitive market that we respond to our
23 customers in terms of what their needs are. If our
24 customer tells us, say the exchanger, that I'm not going to
25 be competitive, it's certainly not in our best interests to

1 price the product to where our customer won't buy them from
2 us or believes that their model, their path to the end user
3 is at risk.

4 MR. LUBERDA: Commissioner Johanson, I just want
5 to point out that all those quotes contained in the
6 Respondent's brief, the section of their brief, those quotes
7 all indicate that the domestic industry attempts to lead
8 prices upward not downward, and their underselling data
9 would suggest that it's imports that lead them downward.

10 MR. ROSENTHAL: Paul Rosenthal. There is
11 competition, of course, between the domestic producers.
12 What we've heard, and I think the industry witnesses have
13 testified to, and your record shows, is that first of all
14 the import sources are ever present. And when there are
15 negotiations taking place, whether it's the gas exchanger or
16 any other customer, sometimes the domestic producer is told
17 this is the price you've got to meet if you want to get this
18 sale.

19 And I think it's pretty obvious from the prices
20 that are proposed which ones are from their other domestic
21 competitor who have similar cost structures in the United
22 States versus the ones that are being offered by import
23 sources from China or Thailand. Because one will be wildly
24 different than the other.

25 And I've heard that from our witnesses before.

1 So, yes, there's definitely direct competition between
2 Manchester and Worthington, and that's as it should be. But
3 that's not what is causing the erosion of profits, or the
4 persistent low profits that you see throughout the Period of
5 Investigation.

6 MR. KERWIN: Commissioner Johanson, if I could
7 add, these two companies are long-time competitors. Since
8 the 1950s, they've been in competition with one another, but
9 you know they haven't seen the kind of abysmal profit
10 picture that they've seen in the period of investigation in
11 the historical relationship. So, it isn't that they've
12 historically have been driving each other into the ground.
13 They have competed with each other, but as Mr. Rosenthal
14 just mentioned, it's the rising market share of the subject
15 imports in the last few years that has really cratered
16 their profitability.

17 CHAIRMAN JOHANSON: Alright, thanks for your
18 responses. My time has expired. Commissioner Williamson.

19 COMMISSIONER WILLIAMSON: Thank you. What is
20 the expected life of a steel propane cylinder?

21 MR. KOMLOSI: I was asked this question in the
22 preliminary hearing and since I've talked to some of the
23 exchangers who deal with cylinders and also customers,
24 they're good for an initial 10-year period and then they get
25 recertified for an additional every five years after that;

1 but on average, about 20 years.

2 COMMISSIONER WILLIAMSON: Okay, thank you.

3 Congress has altered the wording of the scope to
4 make it clearer. It includes cylinders made to the relevant
5 DOT specifications that hold other gases. Does this affect
6 any of the Commission's preliminary findings?

7 MR. LUBERDA: No, it doesn't. It doesn't change
8 the findings. There was a slight change in the overall
9 numbers, but the trends are all exactly the same. So, no,
10 it doesn't affect any of the findings, as far as we can
11 tell.

12 COMMISSIONER WILLIAMSON: Okay, thank you.

13 MR. LUBERDA: And the Respondents haven't raised
14 that as an issue, so I'm assuming they don't find that as a
15 problem either.

16 COMMISSIONER WILLIAMSON: Okay. What is your
17 expectation for demand in the immediate future for this
18 product?

19 MR. KOMLOSI: The demand is relatively stable
20 year-over-year with maybe a flat, slightly increasing.
21 Outside of 2017, which we previously mentioned, where there
22 was a succession of hurricanes or natural disasters that's
23 really the only huge spike you'll see moving forward.

24 COMMISSIONER WILLIAMSON: Okay, thanks.

25 Do we agree that some subject imports are

1 constructed with thicker steel and does this have any
2 practical effect on the use or durability of the product or
3 affect its substitutability?

4 MR. KOMLOSI: Could you repeat that please?

5 COMMISSIONER WILLIAMSON: I guess some imports
6 are constructed with thicker steel, according to the staff
7 report. And I was wondering does this have any practical
8 effect on the use or durability of the cylinders and does it
9 affect their substitutability?

10 MR. PAGE: No, sir.

11 MS. RINGEL: Commissioner Williamson, during the
12 preliminary staff conference, Mr. Newman, who is the
13 importer from Wise & Flankey, the primary importer for
14 subject imports from Thailand explained that the foreign
15 cylinders, the subject cylinders are made with thicker steel
16 because of inefficiencies in the foreign producer production
17 process. They have to use a thicker and lower-quality steel
18 because they don't have dedicated production lines. So,
19 this isn't really about the ultimate use or
20 substitutability of the steel, but really just a difference
21 in production processes.

22 COMMISSIONER WILLIAMSON: Okay. In other words,
23 people don't say, oh, I don't want that one 'cause it's
24 thicker steel or anything.

25 MR. ROSENTHAL: Commissioner Williamson,

1 ironically, this is the ultimate in a make weight argument.
2 The original claim was that the imported cylinders with the
3 thicker walls and heavier walls were preferred and somehow
4 that was a feature that customers would like. And then,
5 ultimately, Mr. Newman backed away from that statement.
6 Indeed, whether it's an RV, which is what he was talking
7 about originally, the ultimate purchaser there doesn't want
8 a heavier cylinder.

9 COMMISSIONER WILLIAMSON: Okay.

10 MR. ROSENTHAL: They want a lighter cylinder so
11 they can have other weight -- have a nicer TV in the RV.
12 They don't want to put a heavier cylinder in the RV, any
13 heavier than it has to be and that's why these products are
14 ultimately interchangeable.

15 COMMISSIONER WILLIAMSON: Okay. Because you
16 don't want to be hauling a heavier one to get it exchanged
17 either. Anyway, let me go to another question.

18 What percentage of your steel propane cylinders
19 have a UV coating and in what application is this important?

20 MR. KOMLOSI: All of our cylinders, as well as
21 Manchester's, are powder coated with -- you know it's a
22 powder coat paint that has fine exterior durability. You
23 know 100 percent.

24 COMMISSIONER WILLIAMSON: Okay, thanks.

25 How quickly could you increase production if a

1 hurricane hit the East Coast next week? We're getting close
2 to that season.

3 MR. PAGE: We could always operate additional
4 hours, so if you're running a traditional eight/ten-hour
5 shift five days a week, you're able to expand that. And we
6 have a union at Crossville, but we have the flexibility
7 within our union contract to provide for overtime. And
8 there comes a point where you need to put a second shift on
9 just because you can't work somebody seven days a week and
10 expect them to be safe in the plant. That would probably
11 take three months to ramp up to get another additional
12 shift added to a plant, but we're able to scale, through
13 overtime and through weekends, probably a 50 percent
14 increase in throughput.

15 COMMISSIONER WILLIAMSON: Okay, thank you.

16 Has the industry experienced any difficulty in
17 sourcing raw materials and do you expect any difficulties in
18 the immediate future?

19 MR. PAGE: No, sir.

20 COMMISSIONER WILLIAMSON: Okay.

21 MR. KOMLOSI: We have not. I mean we have a
22 sister company that's a steel processor. It's a larger
23 buyer of steel. I mean one of the largest outside of the
24 automotive companies, so we've never run into any supply
25 issues.

1 MR. BOWES: Not only steel supply, we believe we
2 are one of the larger steel buyers in the United States,
3 which you know firms up that supply chain. We sell --
4 Worthington Industries sells 60, 70 million pressure vessels
5 across the world, so we are one of the largest valve buyers
6 in the world and in the United States, so that's a second
7 major piece here in that supply chain and this firm.

8 COMMISSIONER WILLIAMSON: Thank you.

9 What should the Commission do with the direct
10 import purchase cost data that it gathered?

11 MR. KERWIN: Commissioner, we address that in
12 our brief and it's based on the data of one company, but we
13 outlined a number of issues that we found in the data that
14 were submitted and I'm not at liberty to discuss that here,
15 but we'd be happy to address it again, but it is noted in a
16 footnote in our prehearing brief that as of now those data
17 do not appear to be reliable.

18 COMMISSIONER WILLIAMSON: Great, thank you.

19 Is direct import growing for this product?

20 MR. KERWIN: Pardon? Are direct imports growing
21 for the product?

22 COMMISSIONER WILLIAMSON: Is that an increasing
23 -- a larger percentage of this sale or is there any trend on
24 that?

25 MR. KERWIN: I do think that a number of

1 purchasers of this product are using direct importation, so,
2 yes; I do think that that's a growing aspect of the market.
3 But the response that you've received so far is rather
4 incomplete in that regard.

5 COMMISSIONER WILLIAMSON: Okay, thank you.

6 To what extent did contract sales limit the
7 domestic industry's ability to raise prices as raw material
8 costs rose?

9 MR. BOWES: For Worthington, they don't. I'll
10 provide you a sample and we can provide more details in the
11 post-conference brief. But when we lock up contracts with
12 our customers and we give them a firm price, due to the
13 volume of steel that Worthington Industries buys we lock in
14 what's called a financial hedge of steel, so we lock in a
15 steel price for a certain volume and we lock in price. So,
16 we have no margin volatility, given the steel market swings
17 up or down monthly throughout that contract period. So,
18 that does not impact us at all

19 COMMISSIONER WILLIAMSON: Okay.

20 MR. PAGE: Manchester has the same situation.

21 COMMISSIONER WILLIAMSON: Okay, thank you.

22 I was going to say how long does it typically
23 take for rising cost to be reflected in a contract price --
24 in contract prices?

25 MR. BOWES: Our contracts in this industry are

1 typically annual and so we negotiate -- I think that's
2 across the board. We're negotiating annual contracts, so
3 you have a once-a-year typically every 12 months to land
4 that new price and lock in that new steel.

5 MR. PAGE: If I could follow onto that, we leave
6 it up to the customers to decide over a period of time
7 whether they want a fixed price or they would like to have
8 that price float or be adjusted over time. In some
9 instances they fix half of it and they say the remaining --
10 the other 50 percent we're going to be let it be tied to the
11 price of steel and if it goes up and down your price will go
12 up and down. So, our customer makes that determination
13 based on what they want to do in terms of what they think
14 steel prices will do.

15 COMMISSIONER WILLIAMSON: They can do their own
16 hedging, in a sense?

17 MR. PAGE: Yes, sir.

18 MR. KOMLOSI: Fluctuations in the steel market
19 are not the issue. I mean we can manage that based on what
20 I mentioned earlier with our steel buying power and what
21 Jimmy mentioned. I mean the market pricing that is dictated
22 by the underselling of these Chinese and Thai cylinders that
23 affects our profitability more than anything.

24 COMMISSIONER WILLIAMSON: Okay, thank you for
25 those answers.

1 CHAIRMAN JOHANSON: Commissioner Schmidtlein.

2 COMMISSIONER SCHMIDTLEIN: Alright, I just have
3 a few more questions. I don't think it's been touched on
4 yet, but I wonder if Mr. Rosenthal would like to address the
5 argument that the Respondents make with regard to the
6 subject imports that are controlled by Manchester and this
7 question of whether or not you can I guess injure -- whether
8 the domestic industry can injure itself. Maybe I should
9 back up.

10 The first question is are those imports that are
11 being brought in by Manchester injuring the domestic
12 industry. And if they are, does it matter that they're
13 being brought in by Manchester?

14 MR. ROSENTHAL: The Commission has had a long
15 history of looking at imports by domestic producers. I can
16 go back to the first case I saw back in 1985 involving
17 municipal casting where three of the largest domestic
18 producers were also major importers and they basically
19 imported because if they didn't match the import price in
20 certain areas they were going to lose these sales
21 altogether. The Commission recognized that those imports
22 were actually a sign of import injury and they did not
23 suggest that these were self-inflicted wounds by the
24 domestic industry.

25 They were indicia of injury because the domestic

1 industry was committed to producing in the United States and
2 preferred to and only do that to so-call fight fire with
3 fire. And there've been a number of cases since that time
4 and maybe before. I didn't make that one up. That was the
5 Commission's decision back in 1986. The decision made that
6 if you're importing because you have to meet certain prices
7 by other imports or otherwise you will lose the customer
8 relationship that's a sign of injury.

9 As Mr. Page indicated today, they'd much prefer
10 to produce in the United States and they've made the
11 decision to produce in the United States and take their
12 chances and hope that they will win this case. So, in my
13 view, that's not self-inflicted injury. That is evidence of
14 injury.

15 COMMISSIONER SCHMIDTLEIN: Okay, alright, a
16 couple of other things. I know we've talked a lot about
17 pricing and how prices are transferred between the segments
18 and so forth. I heard a reference I think during the
19 testimony that there was an announced price increase in
20 2018. And I wonder if -- did the domestic industry also try
21 to raise prices more in 2017 and they weren't able to? So,
22 I'm trying to get at was that just one announced price
23 increase that you had to roll back. Obviously, pricing went
24 up in our pricing data, so some price increases went
25 through. And what I'm looking for is a little more

1 discussion or evidence of the price increases that you
2 wanted to make, but claim that you couldn't.

3 MR. ROSENTHAL: And we're talking really about
4 prior to filing the case because I think the situation is a
5 little difference since this case was filed too.

6 COMMISSIONER SCHMIDTLEIN: Okay.

7 MR. BOWES: We had several price increases that
8 we did announce to our public in calendar '18 and before
9 that we had not announced a price increase in several years.
10 So, there were no additional price increases in 2016 or
11 several years before then.

12 COMMISSIONER SCHMIDTLEIN: Okay. And were you
13 wanting to -- so you don't have any price increases that you
14 announced and had to roll back?

15 MR. BOWES: Certainly, we wanted to previously
16 in calendar '18 what was going on with the steel market left
17 us no choice. I think you can see in the results and
18 throughout the period of investigation we had bad profits,
19 right? So, in calendar '18 we had absolutely no choice but
20 to announce a price increase tied to rising cost of steel.

21 COMMISSIONER SCHMIDTLEIN: And were you able to
22 get that through?

23 MR. BOWES: In some cases, not in all, and it's
24 really small volume I'd say customers. You know the kind of
25 people that buy spot, but not across the board at all.

1 COMMISSIONER SCHMIDTLEIN: Okay.

2 MR. ROSENTHAL: Commissioner Schmidtlein, I will
3 tell you, and we'll put more information on the record on
4 this for the post-hearing brief, but up until 2016/2017 one
5 of the things that the domestic industry was experiencing in
6 talking to their big customers, whether they're big retail
7 customers or big exchangers, was if we proposed a price
8 increase they're going to do a review and decide whether
9 they want to continue with us or go to imports.

10 And so there was a reluctance to even propose a
11 price increase to these big customers for fear that all of a
12 sudden they would be under scrutiny and certainly the way
13 the Big-Box retailers work as well. As long as you leave
14 well enough alone, we're not going to take another look at
15 this. But if you start to increase or want to increase your
16 prices, then we're going to start inviting competing bids.
17 So, for a while, they didn't even propose a price increase
18 for fear that this is going to cost them volume.

19 MR. LUBERTA: And that's exactly what happened
20 as those slides at the end of Mr. Rosenthal's presentation
21 showed. The places where price went up most for the
22 domestic industry were exactly the products where we lost
23 market share. The pricing data that you collected show
24 that.

25 COMMISSIONER SCHMIDTLEIN: Right. I guess what

1 I'm getting at is the argument of price suppression. So, if
2 you have evidence of where you were trying to increase
3 prices, so price suppression is about not being able to
4 increase prices where it otherwise would've occurred.
5 That's what I'm getting at.

6 MS. RINGEL: Mr. Komlosi alluded to this in his
7 testimony and we'll put more information on this in our
8 post-hearing brief, but we also have evidence that we can
9 show you tying the effects of filing this petition and this
10 trade case to the negotiations in -- since after filing the
11 case that the domestic producers have had with their
12 customers and how those negotiations have been directly tied
13 to this case and the relationship between that. For
14 example, customers agreeing to a price increase, not as much
15 as the domestic producers would've wanted or had asked for,
16 but also tying that agreement to a temporary term, dependent
17 on the results of this case with the anticipation on the
18 customer's end that subject imports, if this case isn't
19 successful, would be available again at a very low price.
20 So, we can provide more information on that in our
21 post-hearing brief.

22 COMMISSIONER SCHMIDTLEIN: Okay, alright, thank
23 you.

24 And then the last question I had was given that
25 we have pretty good coverage in the pricing data for U.S.

1 and for subject imports in terms of how much of the
2 shipments that they cover. I was looking at -- so we can
3 look at the volumes on a quarterly basis and I just
4 wondered, given that we've been talking about what's been
5 driving the increase in demand and we've talked a lot about
6 the hurricanes that happened in the last summer, I guess,
7 and fall of 2017 and then Hurricane Michael, which was
8 October of 2018, I think, right?

9 So, I just wondered -- and again, I guess this
10 will have to be for the lawyers or maybe the economists who
11 have access to this data, and maybe the fact witnesses can
12 speak to it, in general. You know when a hurricane happens
13 like that how long -- and I apologize. I know that
14 Commissioner Kearns was talking a little bit about this.
15 How long does it take for that to show up in the data?

16 So, the reason I ask is when you look at -- in
17 what segments does that show up in? Does it mostly show up
18 in the three without RV? I assume that RVs aren't really
19 being affected by hurricanes, the demand for -- that seems
20 more of a disposable income issue there. You know the
21 economy is doing well. People buy RVs. And so, when you
22 look at the pricing products for -- you know, for instance,
23 when I look at the pricing product for gas exchangers,
24 Pricing Product 2, you see a jump in October/December of
25 both 2017 and 2018, but it looks like it's a little bit --

1 and maybe that's hurricane related. They both come from a
2 smaller volume in July to September, so I don't know if any
3 of you can speak to that because otherwise I don't see a
4 jump in this data for the other products. And you also see
5 a big jump in Product 3 from China in October of '17 --
6 October to December of '17, but not '18.

7 MR. KOMLOSI: I mean, in general, the market is
8 very seasonal. The majority of steel portable cylinders are
9 sold February through July 4 in peak times of outdoor
10 activity. So, after July 4 is really tough to sell a lot of
11 20-pounders. Our sale of 20-pound cylinders drop off
12 dramatically. And because it's such a concentrated season
13 we go into inventory build mode the latter part of the year.
14 So, when there is a natural disaster and the timing of it is
15 when we would typically build inventory, it does affect --
16 you know all of a sudden that looks like a huge spike
17 compared to years past.

18 COMMISSIONER SCHMIDTLEIN: And does the demand
19 come through the distributor channel and the gas exchanger?
20 Like, where do you see the spike?

21 MR. KOMLOSI: We see it through retail, we see it
22 through exchanger. We see it really across --

23 COMMISSIONER SCHMIDTLEIN: Across?

24 MR. KOMLOSI: -- yeah, across the business.
25 Doesn't really affect RV, as you mentioned.

1 COMMISSIONER SCHMIDTLEIN: Okay.

2 MR. KERWIN: Commissioner, if I could add, most
3 of the sales through distributors or to distributors are
4 ultimately going to the RV industry.

5 COMMISSIONER SCHMIDTLEIN: Huh. Okay. So this
6 is mostly in the retailer and gas exchanger. And is that
7 your experience, Mr. Page, as well?

8 MR. PAGE: Yes, ma'am.

9 COMMISSIONER SCHMIDTLEIN: For Manchester? Okay.
10 Okay, I don't have any further questions. My time is up.

11 CHAIRMAN JOHANSON: Commissioner Kearns.

12 COMMISSIONER KEARNS: Thank you. So I'm looking
13 at the pricing data for Product 1 sold to RV manufacturers.
14 And I guess what I found kind of surprising, I think this is
15 true sort of throughout the POI, I mean there's quite a big
16 disconnect between U.S. prices and subject import prices.
17 And the U.S. prices seem pretty high compared to the other
18 segments. They seem like they're so high that the U.S.
19 producers can't be all that serious about trying to sell
20 into that market. Any response to that?

21 MR. ROSENTHAL: And just to be clear, Pricing
22 Product 1 is for the RV market. I will say this, the -- and
23 we'll add to this in the post-hearing brief -- part of
24 what's happened is that the pricing by the imports is so
25 low, that in order to get the sales, the U.S. producers

1 would effectively say, "Okay, we are now going to devote
2 more capacity to effectively lose money on every additional
3 sale we're making to the RV industry." The prices are
4 almost impossible to meet and therefore, they've had limited
5 success, shall we say overall, and that's been true for a
6 while.

7 It's not that they've given up. They continue to
8 make visits and occasionally they will sell things, but on a
9 regular basis, to get the volumes from the RV industry that
10 they want, they basically would have to sell more at
11 money-losing prices. So they want those sales. They would
12 like them at a profitable level.

13 COMMISSIONER KEARNS: Okay.

14 MR. KERWIN: Commissioner, if I could add -- Mike
15 Kerwin, Georgetown Economics -- as you heard from the
16 industry witnesses this morning, the RV industry is so much
17 locked up by the subject imports that a lot of these sales
18 from the domestic industry are only being done on a spot
19 basis or on a fill-in basis or on an emergency basis.

20 So the long-term sales are going to the subject
21 imports and the occasional spot sales are going more to the
22 domestic industry, and in a spot sale situation, you can
23 often realize a better price because, obviously, the
24 purchaser is in a more desperate position and then, but
25 we've also heard that when these emergency situations after

1 the hurricanes disappeared, that most of the RV purchasers
2 told the domestic producers that at that point they would
3 need to bring their prices back down to the levels of the
4 subject imports if they wanted to continue to make sales to
5 those customers. I think that's certainly part of the
6 explanation.

7 COMMISSIONER KEARNS: Okay, good.

8 MR. LUBERDA: Commissioner Kearns, I just also --
9 Alan Luberda -- also to point out, so Pricing Product 6 is
10 also to the RV manufacturers, and those are 30-pounders,
11 which is a product that's mostly sold to RV manufacturers,
12 as opposed to Product 1, which is a 20-pounder, which is
13 sold much more broadly.

14 And if you look at the pricing between the
15 domestic industry and subject imports, it's not that big gap
16 that you're describing in Product 1. And I think that goes
17 to Mike Kerwin's explanation that you're gonna have more of
18 these spot sales in the 20-pounder size, which is gonna show
19 a difference in pricing there.

20 But, you know, certainly you can see from Product
21 6, which is almost exclusively sold to RV manufacturers,
22 there's an effort here, you know, both in the volume side
23 and the price side, to try and make these sales. And
24 they're still being 100% undersold, so, you know, for the
25 domestic industry, you know, does it matter whether you're

1 drowning in a foot of water or three feet of water?

2 COMMISSIONER KEARNS: Yeah, okay, thank you. And
3 that's a good segue to another question I had. According to
4 pricing data, the quantity of 20-pound subject imports sold
5 to RV manufacturers appears to have increased. Can you
6 explain why that might be? Does that also mean that the RV
7 segment can now more readily access gas exchangers since
8 they generally sell 20-pound cylinders? And then, also, I
9 guess we're assuming gas exchangers don't sell 30-pound
10 cylinders? Is that right, as well?

11 MR. KOMLOSI: This is Mark Komlosi with
12 Worthington. Yes, gas exchangers focus solely on the
13 20-pounder, and to your question about the RV industry using
14 20-pounders, due to what I mentioned earlier, the
15 availability of exchange cages -- so someone has an RV and
16 they're running low, you know, they're gonna go on a trip,
17 they're running low on gas. They have one of two options.
18 They can go find a refiller pulling their RV into a lawn and
19 garden type place and chase someone down to fill that up, or
20 go to an exchange cage and swap it out for a 20-pound tank.

21 COMMISSIONER KEARNS: Okay. And then, a question
22 for the two Manchester witnesses. Can you tell me more
23 about when you all started producing in Elkhart and
24 explaining more how that, is that connected to the fact that
25 the RV industry is there and, you know, to what extent is

1 Manchester's production focused in Elkhart? And just give
2 us a better sense of why you're there, and what it means
3 about your connection to the RV industry?

4 MR. VIEBRANZ: Scott Viebranz, Manchester Tank.
5 We placed that plant in Elkhart in the early 70s,
6 specifically to fulfill what we saw as an opportunity in the
7 RV industry. And we sold cylinders, 30-pound cylinders into
8 that market for a number of years and then, as we've
9 testified in the 2008 period, during the Great Recession,
10 the imports came in and reduced the amount of cylinders we
11 sell into that market.

12 COMMISSIONER KEARNS: Okay, thank you. About the
13 contracts, I know this has been tested on, I bet, already,
14 but respondents alleged that any injury to the domestic
15 producers is caused by inflexible contracts that create
16 various increasing prices in response to increased costs.
17 Can you address that argument?

18 Are changes in raw material costs a factor in
19 price negotiations with your purchasers? I know you've said
20 some already on this, but just give us a better sense of how
21 those things are connected. Because I think their argument
22 is, the only reason why prices aren't going up, despite the
23 fact that your costs are going up, is the fact that you're
24 stuck in these longer term contracts with fixed prices.

25 MR. PAGE: This is Ruffner Page with Manchester.

1 I'll try to address that. The contracts are not
2 extraordinarily long. They're just annual contracts and a
3 substantial portion of those agreements aren't fixed price,
4 for example, if the exchanger decides that they think the
5 price of steel will go down over the course of the next
6 twelve months, they will elect to maybe purchase some
7 portion of it fixed, and then let the rest of it be adjusted
8 based on reduction in steel prices.

9 So the contracts are not multi-year, typically
10 not extended contracts where you've got to bid low to stay
11 in business or you'll lose it and you'll never be in
12 business again. There's enough, in addition to that,
13 there's enough other business in the 20-pound cylinder
14 business with other exchangers that are smaller that provide
15 for additional business. So it's not --

16 I think the way the data is reflected, the two
17 primary largest exchangers, it makes it look like it's sort
18 of a do-or-die. You gotta bid it and you gotta be low or
19 you're out of business. The exchangers do understand that
20 they need a steady supply of tanks or they won't be able to
21 sell gas. And so we're, to some extent, joined at the hip
22 in terms of success. It's not that predatory would be the
23 way I would respond.

24 COMMISSIONER KEARNS: Okay. And someone from
25 Mr., from Worthington?

1 MR. BOWES: Yeah, James Bowes with Worthington.
2 I would say the issue is not monthly steel costs'
3 fluctuations, right? It's the point of negotiation for
4 those annual contracts that Mr. Page referenced. In
5 general, I think the data shows -- our 20-pound price for us
6 has essentially not changed over the period of
7 investigation, especially for gas exchangers, while costs
8 across the board have gone up. So, again, that price of
9 that negotiation for that contract, that spread at that time
10 is what's causing us the issue, and that's clear across the
11 three years of the period of investigation. But the monthly
12 steel costs' fluctuations, we manage that. That's not a
13 problem for us.

14 COMMISSIONER KEARNS: And just one related
15 question. So to the extent we're talking about annual
16 contracts, am I right, I think we are assuming that unlike
17 we've seen in some other industries where that typically
18 happens for all customers at a particular time in the year,
19 is it more spaced out for you all?

20 MR. VIEBRANZ: Scott Viebranz, Manchester Tank.
21 Yes, they typically space them out. Sometimes they do it on
22 their fiscal year, which is different than our calendar, so
23 there's a variety of start and end dates of these contracts,
24 yes.

25 COMMISSIONER KEARNS: So there's no one pricing

1 season in the industry?

2 MR. ROSENTHAL: Commissioner Kearns, just one
3 more point about the relationship on steel costs or prices.
4 Early in the period of investigation, steel prices were
5 relatively low, or steel costs were very low, and the
6 industry, the propane cylinder industry, was doing poorly
7 from a profit point of view. So it is not, whether prices
8 of steel are going up or prices of steel are going down, the
9 industry making steel propane cylinders has been injured.

10 COMMISSIONER KEARNS: Okay, thank you.

11 CHAIRMAN JOHANSON: The respondents' brief is
12 replete with references to the 232 and 301 tariffs and their
13 impact on conditions in the U.S. market. Within the first
14 two pages of their brief, for example, they argue that 232
15 tariffs explain raw material costs increases experienced by
16 the domestic industry and that the Section 301 tariffs
17 eliminate any threat of material injury by subject imports
18 from China. And this is in their brief at Pages 1 to 2. I
19 didn't see any express reference to the 232 or 301 tariffs
20 in the petitions' brief. Why is this the case?

21 MR. ROSENTHAL: It's the case because -- let's
22 focus on 301 tariffs first. They have been around for
23 several months. They were scheduled to go away a month or
24 so ago, and they may go away in several weeks. The 301
25 tariffs are not what has driven the performance of this

1 industry.

2 And it is true that they've been imposed in the
3 last part of this period of investigation, but our entire
4 point is that this industry's been injured well before the
5 301 tariffs came into place. They may go away next week,
6 next month. They are not an impediment to imports coming
7 into the United States in the medium term or the long term.
8 And if you compare them to the actual dumping margins, they
9 are relatively small.

10 So in our view, the 301 tariffs are not
11 particularly instructive about what has caused injury to the
12 domestic industry, nor will they eliminate the threat of
13 injury because we have no idea whether they'll be around.
14 And that's not something that you can make a decision on
15 about whether there's a future threat. And if anyone can
16 tell me what this administration's gonna do on the 301
17 tariffs, I would be very, very eager to know.

18 The same thing goes to the 232 tariffs. Some
19 countries are exempt, some supplier companies or countries
20 just got exempted a couple weeks ago. It's very
21 unpredictable what the 232 tariffs will do, but we know that
22 overall prices went up for a while on steel, but steel
23 prices have dropped quite a bit since the beginning of this
24 year.

25 And as you've heard from our witnesses just a

1 minute or two ago, the increased prices that took place
2 temporarily in 2018, for example, are not the reason why the
3 domestic industry has been suffering injury. Those steel
4 costs are basically locked in. They're not being fixed into
5 long-term contracts where they cannot recover their steel
6 costs. If you look at the pricing over this period of
7 investigation, you look at the profitability, well before
8 the 232 tariffs, the domestic industry was suffering, and
9 look at the profits, I can't announce them publicly, but in
10 any other case, you would've found those profitability
11 levels as injurious, unsustainable and so if you're talking
12 just about the last year, the period of investigation, where
13 things got worse, you can't say that's just the 232 tariffs.

14 So our view is the -- I'm not gonna say that they
15 don't exist, but they are not the reasons for the condition
16 of the domestic industry. That's for certain. And as steel
17 prices are going down now with the advent of the 232
18 tariffs, you can't say you can ignore the industry's injury
19 because things are gonna be better with reduced steel costs.

20 MR. KERWIN: If I could supplement what Paul just
21 said. One of the key factors in relation to the 301 duties
22 is they're not applicable at all to any imports from
23 Thailand, only to those from China.

24 CHAIRMAN JOHANSON: All right. Thank you for
25 your responses. That concludes my questions. Commissioner

1 Williamson?

2 COMMISSIONER WILLIAMSON: Okay. I know the
3 answer to this already, but the Chinese respondents have
4 suggested that during the threat determination that China
5 should be decumulated. Anything you wanna say in addition
6 to what you've already just said?

7 MS. RINGEL: Commissioner Williamson, Brooke
8 Ringel, Kelley Drye. I'd like to just add a couple of
9 points. So in addition to the points that Mr. Rosenthal
10 made about the unpredictability and the uncertainty related
11 to the 301 tariffs, I will also note that the administration
12 has announced that it will soon be, at some undetermined
13 point in time, opening up an exclusion process for List 3
14 under which propane cylinders from China are covered.

15 So all of that is to be determined well after the
16 time the Commission needs to be make its decision in this
17 case. And so not only is there extensive uncertainty
18 related to the 301 tariffs themselves, but also with respect
19 to this particular product from China. I will also note
20 that the respondents argue as another point for explaining
21 why Chinese and Thai imports should be decumulated, they
22 also argue that -- they also point again to imports by a
23 domestic producer as a reason for decumulating and there's
24 simply no basis in that.

25 That fact, first of all, has no impact on the

1 reasonable overlap in competition factors that the
2 Commission looks at and that support cumulation strongly in
3 this case. And as Mr. Page has testified, those imports --
4 there's no expectation those imports will continue in the
5 future if this case is successful. That's not a sufficient
6 basis for decumulation either.

7 COMMISSIONER WILLIAMSON: Okay, thank you. And I
8 have no further questions.

9 CHAIRMAN JOHANSON: Commissioner Schmidtlein.

10 COMMISSIONER SCHMIDTLEIN: Yes, I have a couple
11 more questions. So I'm sorry to beat this horse, but I
12 wanna go back to questions about pricing. So I'm looking
13 again at the pricing products and specifically, Pricing
14 Product 1, which is for RVs, 20-pounds, and Pricing Product
15 2 for the gas exchangers, for 20-pounds. And, so my
16 question is, given the level of capacity utilization that
17 the domestic industry had over the POI, had plenty of
18 capacity available, they were able to increase their
19 shipments over the POI to gas exchangers.

20 The prices reported for the U.S. for gas
21 exchangers are below the prices that are being reported for
22 Thailand for RVs. So my question is, given that this is the
23 same product, right, we've emphasized that it's the same
24 product across all these segments, why weren't the domestic
25 industry willing to price lower in order to increase its

1 sales more in the RV sector? Can you discuss that now? At
2 all? Do you see what I'm saying? It's giving us the same
3 product.

4 MR. ROSENTHAL: I do, and I'd prefer to do that
5 in the post-hearing brief, but I think what you've got are
6 not what the willingness is of the domestic industry to
7 price lower. I mean that's -- what you're seeing is the
8 sales that have been actually made at certain prices, not
9 the willingness. It's not a willingness factor and you've
10 heard that the -- but I think we're better off waiting to
11 the post-hearing brief to explain more what's been going on
12 there.

13 COMMISSIONER SCHMIDTLEIN: Okay. So, in
14 specifically looking at, you know, the prices that are being
15 reported in the RV pricing product, and the prices that are
16 being reported for gas exchangers, and it raises the
17 question, well, you were increasing your shipments, so at
18 those prices, right? At the prices being sold to gas
19 exchangers.

20 So it sort of begs the question, given the
21 capacity utilization numbers, why not sell at those prices
22 to RV manufacturers, right? And increase your shipments
23 even more. And what would that impact be on your
24 profitability if you did that? So happy to have you do it
25 post-hearing, but I'd like you to -- I understand that the

1 domestic industry's made the claim that you're very willing
2 to sell to the RV, but my question's very specific --

3 MR. ROSENTHAL: We will --

4 COMMISSIONER SCHMIDTLEIN: -- to these two
5 dynamics.

6 MR. ROSENTHAL: We'll give you a more fulsome
7 answer there, and we'll also give you some information about
8 some of the more recent sales to the RV industry and the
9 terms of those sales and in negotiations so you've have a
10 better idea of how these discussions have gone.

11 But I think it's fair to say that the RV industry
12 has been largely unwilling to even entertain quotes by the
13 domestic industry over large parts of this, even though
14 we've tried, because they said, "You're not gonna get close
15 to what we can get from the import sources," and so,
16 therefore, if you drop your price X percent, you're still
17 not gonna be there.

18 COMMISSIONER SCHMIDTLEIN: Okay. And then, the
19 last question I have also has to do with pricing and again,
20 maybe this has been addressed. We've been doing this for a
21 few hours now, but when I look at the trend for Pricing
22 Product 1 and 3, which are RV and distributors, right, and I
23 think someone commented earlier that the distributor channel
24 is ultimately going to the RV manufacturers by and large.

25 When you look at the trend for those pricing

1 products, you see that there was an increase of more than
2 20% in what's been reported in the data. But when you look
3 at Pricing Products 2 and 4, which are to exchangers and
4 retailers, the increase, based on the data, is less than
5 10%. So again, I don't know if you wanna address that now
6 or if you wanna address it in post-hearing.

7 But the question that it raises is, why are they
8 able to increase so much in the pricing products where
9 subject imports are more active, and the pricing products
10 where the domestic industry dominates, they weren't able to
11 increase as much? With less competition from subject
12 imports.

13 MR. ROSENTHAL: I did really try to address that
14 in my narrative that accompanied Slides 24 through 27.

15 COMMISSIONER SCHMIDTLEIN: You like those slides,
16 don't you?

17 MR. ROSENTHAL: I do.

18 COMMISSIONER SCHMIDTLEIN: 24 to 27 --

19 MR. ROSENTHAL: But more important, I like what I
20 had to say about them.

21 COMMISSIONER SCHMIDTLEIN: Yeah.

22 MR. ROSENTHAL: And basically the lessons that
23 you can glean from the slides is that, if you --

24 COMMISSIONER SCHMIDTLEIN: I see. Okay. Now I'm
25 recalling.

1 MR. ROSENTHAL: Okay.

2 COMMISSIONER SCHMIDTLEIN: They learned their
3 lesson.

4 MR. ROSENTHAL: If you raise your price to these
5 big customers who are also competing directly and indirectly
6 against imports, you will lose volume.

7 COMMISSIONER SCHMIDTLEIN: Okay. I do recall you
8 saying that now. Okay. All right. Thank you very much. I
9 don't have any further questions.

10 CHAIRMAN JOHANSON: Commissioner Kearns?

11 COMMISSIONER KEARNS: Yeah, just a couple of last
12 questions here. One about inventories. The domestic
13 industry has reported that you sell primarily out of
14 inventory and have a relatively low capacity utilization,
15 yet you do not appear to have replenished your end-of-period
16 inventories over the POI since the natural disasters in
17 2017. Why is that?

18 MR. ROSENTHAL: We'll get more into this in the
19 post-hearing brief, but Commissioner, what happened was,
20 they were rebuilding inventories over the time since 2017
21 and through 2018, and then there was another natural
22 disaster, Hurricane Michael. So they were producing to
23 inventory consistently, but the build-up through 2018 was
24 then again depleted once again when there's another
25 hurricane.

1 So, there's a consistent, as you heard, effort to
2 build inventory, especially I the back half of the year
3 after the peak sales are completed. So there's nothing
4 other than replenishing inventory to meet the spikes in
5 demand that occurred as a result of the natural disasters.

6 COMMISSIONER KEARNS: Okay.

7 MS. RINGEL: Commissioner Kearns, Brooke Ringel
8 from Kelley Drye. This is an industry where cylinders are
9 sold primarily out of inventory. That's what the record
10 shows, and certainly that's the case for domestic producers.
11 This is a shelf-stable item, so that's one of the ways the
12 domestic producers manage their costs is by building
13 inventory and selling out of inventory and that also allows
14 them, particularly domestic producers, to be responsive to
15 the market when emergencies strike. So the fact that they
16 drew down on their inventories and rebuilt inventories
17 before and after a natural disaster is typical.

18 COMMISSIONER KEARNS: Right. But what seems
19 atypical is that you still haven't replenished the
20 inventories.

21 MR. BOWES: James Bowes of Worthington. I would
22 tell you, in general, we can choose to build up our
23 inventory after that, at that short-term demand spike by
24 working Saturdays and Sundays, right. That's more cost to
25 us. We got comfortable ourselves, I can only speak for

1 Worthington. We just got comfortable at that inventory
2 level we were at to serve the market. So we choose, given
3 our lack of profits, to not invest more on working overtime
4 or adding another shift to stock up inventory. We just felt
5 like we got more efficient and we were fine with the
6 inventory levels we had.

7 COMMISSIONER KEARNS: Okay. And I guess, kind of
8 related to this, I guess, I'm curious what happens, I mean
9 after you have a hurricane, it's when -- when you have a
10 hurricane, you need to produce more or sell more at least
11 out of inventory. But those cylinders are gonna be reused
12 after the hurricane, I would think.

13 So what happens to production in the months
14 following a hurricane? I mean there are now more cylinders
15 out in the market. Does that mean that, you know, that your
16 production then tends to kind of be affected as well? Or
17 no?

18 MR. KOMLOSI: This is Mark Komlosi with
19 Worthington. It really depends. I mean, I think you're the
20 one that mentioned earlier, you have three propane tanks
21 now? There are situations where a consumer would have one
22 tank and then when there's a natural disaster, there's such
23 a rush to get additional cylinders, you know, one for
24 cooking, one for their generator, and once they have those,
25 they kind of, you know, hold onto them, so they don't

1 necessarily go back into circulation.

2 COMMISSIONER KEARNS: Okay.

3 MR. BOWES: James Bowes, Worthington. We didn't
4 change our production schedule. We were producing the same
5 amount before and after. There was no reduced shipments
6 that we sold.

7 COMMISSIONER KEARNS: Okay.

8 MR. BOWES: After the hurricane.

9 COMMISSIONER KEARNS: Okay, that's helpful.

10 Thank you.

11 MR. VIEBRANZ: Scott Viebranz, Manchester Tank.
12 When you think about the time continuum and the seasonality
13 and then the unforecasted demand we had in that time frame,
14 it makes sense. You know, when we come out of the high
15 season--call it, you know, in July--what we're making at the
16 back half of the year is there to then start to meet the
17 demand in the next season. All of that got sucked down by
18 the hurricanes in '17.

19 Then as you try to recover in '18, you're moving
20 into another season, high season, and then you come out of
21 that season and, again, there's another hurricane. So this
22 cycle of seasonality, unforecasted demand in that timeframe
23 affected both companies' ability to get inventory built
24 back.

25 MR. LUBERDA: This is Mr. Luberda. I just point

1 out to the -- when you have a natural disaster the size of
2 those hurricanes come through a region, the cages that hold
3 the existing inventories get destroyed. Those things get
4 scattered all over the place, they get damaged, can't be
5 recertified, so it's not like that pre-existing inventory is
6 stable. Some of that is destroyed or depleted.

7 COMMISSIONER KEARNS: Got it. Okay. Great.
8 Thank you very much.

9 CHAIRMAN JOHANSON: Do Commissioners have other
10 questions? Commissioners do not have further questions. Do
11 staff have any questions for this panel?

12 MR. THOMSEN: Craig Thomsen, Office of
13 Investigations. Staff have no questions for this panel.

14 CHAIRMAN JOHANSON: Do respondents have any
15 questions for this panel?

16 MR. MENEGAZ: Not at this time.

17 CHAIRMAN JOHANSON: All right. Then we will now
18 take a break for lunch. This will be a recess. We will
19 remain in recess until 1:20. And I would like to remind all
20 parties to not leave confidential business information in
21 the room as the room is not secure.

22 (Whereupon, at 12:20 p.m., a luncheon recess was
23 had to reconvene at 1:24 p.m.,)

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AFTERNOON SESSION

CHAIRMAN JOHANSON: Mr. Secretary, are there any preliminary matters?

MR. BURCH: Mr. Chairman, I would like to note that all witnesses on the panel in opposition to the imposition of anti-dumping and countervailing duty orders have been sworn in and are seated, and they have 60 minutes for their testimony. There are no other preliminary matters.

CHAIRMAN JOHANSON: Thank you. Y'all may begin whenever you would like.

MR. MENEGAZ: Thank you members of the Commission. This is Greg Menegaz of DeKieffer and Horgan, representing Worldwide Distribution, Shandong Huanri Group and Hongkong GSBF. I want to say a few words about the panel that's here and how we're going to make our presentation this afternoon. We're going to start with Brad Candelosi (ph) of Worldwide Distribution. Oh, you're first? Okay, sorry.

Jim Dougan's going to provide the economic analysis first, and then Brad Candelosi's going to speak on behalf of Worldwide Distribution, and then Eric Brumbaugh is going to speak on behalf of USP Distribution. We will not have affirmative testimony from Rob Simon of Worldwide, or from Leo Akins of Forest River. But we do want -- and I

1 will finish the presentation with some words on threat.

2 But we just wanted the Commissioners to
3 understand that Forest River is the second largest RV
4 manufacturer in the country, and UFP Distribution is a major
5 distributor to almost all the other RV manufacturers. So we
6 think we've succeeded today in bringing you essentially the
7 RV industry to the table. You have a very comprehensive
8 group of people with wide industry expertise in front of you
9 this afternoon, and we would all welcome your questions.
10 With that, I'm going to turn things over to Jim Dougan of
11 ECS.

12 STATEMENT OF JAMES P. DOUGAN

13 MR. DOUGAN: Good afternoon, Commissioners.
14 I'm Jim Dougan from ECS. The record evidence in this case
15 demonstrates that the domestic steel propane cylinder is not
16 suffering material injury by reason of subject imports. My
17 testimony will address the statutory criteria of volume
18 effects, price effects and impact. Since so much of the
19 relevant data are confidential, I will present my public
20 testimony, but will reference BPI slides that I've
21 circulated to the Commissioners and staff, and the
22 signatories to the APO over at Kelley Drye.

23 With respect to volume effects, apparent U.S.
24 consumption of steel propane cylinders or SPC grew over the
25 POI, as did the domestic industry's production and

1 shipments. In fact, as illustrated at Slide 1, the domestic
2 industry's shipments grew by a far greater absolute amount
3 than shipments of subject imports.

4 Mathematically, domestic shipments grew by a
5 smaller percentage, but that's because they were beginning
6 the POI from a much larger volume, corresponding to the
7 domestic industry's dominant share of the market. When
8 demand is growing at a healthy rate and domestic industry
9 shipments are growing as well, and also capturing the vast
10 majority of that increase in demand, it doesn't follow that
11 an increase in the volume of subject imports represents a
12 displacement of domestic industry shipments.

13 This is especially true because the domestic
14 industry itself was responsible for a significant share of
15 subject imports. As shown on Slide 2, when the domestic
16 industry's controlled imports are included, the disparities
17 between absolute growth in domestic or domestically
18 controlled shipments and the absolute growth in subject
19 import volume was even greater.

20 Petitioners claim that they were forced to
21 import these products, but in weighing these claims, I
22 invite the Commission to review the information on Slide 3,
23 which reproduces Table 1 from Worldwide's prehearing brief.
24 Please compare first the comparison of the rate of increase
25 in volume of subject imports by domestic producers compared

1 to imports by other parties, and two, the average unit
2 values of subject imports by domestic producers compared to
3 those of imports by other parties.

4 I also invite you to review the information in
5 Slide 4, which reproduces information from Exhibit 9 to
6 Chinese respondents' prehearing brief, which compares the
7 pricing data of the domestic industry's controlled imports
8 versus other subject imports and the domestic industry. We
9 submit that this record evidence shows that the domestic
10 producers imported these quantities not because of
11 competition with subject imports, but out of a desire to
12 take advantage of market opportunities and possibly also
13 domestic capacity constraints, which I will discuss later.

14 Back to the market as a whole. Respondents
15 submit that because the growth in domestic shipment volume
16 far exceeded the growth in subject import volume, no
17 displacement took place. As shown at Slide 5, the market
18 share data arithmetically show a small shift in market share
19 in percentage terms.

20 Because of the differences in absolute
21 shipment growth, however, Respondents submit that this small
22 percentage shift was not material. Moreover, as also shown
23 on Slide 5, these relative shifts in absolute volume and
24 market share are even smaller once controlled imports are
25 considered, and our view these shifts fall below the

1 threshold of materiality.

2 It's also helpful to look at trends in demand
3 by market segment or channel. As shown on Slide 6, it is
4 apparent that the gas exchanger and retailer segments are by
5 far the largest, and accounted for essentially all of the
6 increase in demand over the POI. This morning, Petitioners
7 claim that this was driven by spikes caused by natural
8 disasters, but as Commissioner Schmidtlein correctly pointed
9 out, the data don't really support that.

10 Nor do the data support Petitioners' position
11 that share is shifting away from gas exchangers towards
12 retailers. In the gas exchanger segment, domestic producers
13 face essentially no competition from subject imports, as the
14 data on Slide 7 demonstrate. Petitioners have suggested
15 that subject imports have been making inroads to this
16 segment, but their supporting evidence for this contention
17 is flimsy at best, and the numbers on this Slide 7 speak for
18 themselves.

19 This morning, Petitioners claimed that these
20 data are incomplete, because it doesn't reflect the
21 questionnaires from some regional gas exchangers that
22 haven't been received. But these data aren't purchases;
23 they're shipments. They're shipments data from the domestic
24 industry, so they are complete in terms of shipments to gas
25 exchangers.

1 We note also that in analyzing the
2 significance of those numbers, the Commission should look at
3 the identities of the importers who brought in these
4 volumes. More on that later. But with respect to the
5 retailer segment, the Commission should also analyze any
6 increases in subject imports, keeping in mind the importing
7 parties.

8 Subject imports have their greatest presence
9 in the RV manufacturer and distributor segments. As
10 discussed in our prehearing briefs, most of the distributors
11 who responded to purchasers' questionnaires identified
12 themselves as distributing to the RV market. So for the
13 most part, these two segments are effectively one segment,
14 although there may be some distributors who distribute to
15 other segments, who filled out questionnaires. Most of them
16 distribute to the RV segment.

17 Demand in this market fluctuated but was
18 similar in 2018 as it was in 2016, which fits subject import
19 market share with its small increase. Worldwide's
20 prehearing brief at pages 26 to 29 uses confidential
21 information to establish how little priority that domestic
22 producers have placed on serving this segment of the
23 market, and you'll hear more on that from the industry
24 witnesses on this afternoon's panel.

25 Worldwide's prehearing brief also points out

1 at pages 29 to 36 that the domestic industry did not have
2 the capacity available that it claimed to have. As
3 summarized at Slide 8, almost half of the responding
4 purchasers reported supply constraints, and many responding
5 purchasers indicated that domestic producers' lead times had
6 increased over the POI, and the lead times that they
7 reported were far longer than the lead times that domestic
8 producers claimed that they could achieve in their
9 questionnaires.

10 A few large purchasers who account for a very
11 significant portion of demand reported that domestic
12 producers did not have the ability to meet their demand in a
13 reasonable time frame. See Worldwide's prehearing brief at
14 pages 35 and 36. As you'll hear from the witnesses today,
15 the situation has not improved, even with the imposition of
16 preliminary AD/CVD duties, 301 tariffs and price increases
17 that one would expect to be met with increased availability
18 of domestic supply.

19 In their prehearing brief, Petitioners have
20 claimed that any extended lead times were simply a reaction
21 to "temporary" spikes in demand. But if domestic producers'
22 capacity was reported accurately, and these companies truly
23 had the available capacity that they claim to have, they
24 would not have had to extend lead times to meet temporary
25 spikes in demand.

1 If adjustments would have to be made to expand
2 the workforce or otherwise adjust their operations to
3 accommodate these orders, then that capacity is not truly
4 available and does not meet the questionnaire's instructions
5 to "assume normal operating conditions." At one point they
6 said -- one of the witnesses this morning said they were
7 producing as fast as they can, in response to some of these
8 shocks, and they pushed back delivery dates.

9 But again, that suggests that at those
10 moments, they were running flat out and that they had
11 virtually no available capacity. So given this evidence, we
12 disagree with the prehearing report's statement that the
13 U.S. industry has the ability to greatly increase or
14 decrease shipments to the U.S. market, at least over the
15 near term horizon contemplated by the supply elasticity
16 discussion.

17 So for the same reasons, we submit that the
18 Commission should make a negative finding with regard to
19 adverse volume effects by reason of subject imports. We
20 also submit that the evidence supports a finding of no
21 adverse price effects by reason of subject imports. First,
22 as shown at Slide 9, there was no price depression. The
23 industry's net sales average unit value increased over the
24 POI, as did its U.S. shipments AUV.

25 As also shown on this slide, the industry's

1 shipments AUV increased in every market segment, and were
2 the highest with the greatest increases in the segments
3 where subject imports have the greatest presence, and were
4 lowest with the smallest increases in the segments where
5 domestic producers dominate the market.

6 The same pattern is shown in the pricing data.
7 As the prehearing report states at Roman V-25, in general
8 prices increased during 2016 to 2018, and "domestic price
9 increases ranged from 7.0 to 33.7 percent during 2016 to
10 2018." The coverage of the pricing data was extraordinarily
11 high, as shown in the prehearing report at pages Roman V-7
12 and at page 42 of our prehearing brief. So the Commission
13 can and should find that these data are representative of
14 the market as a whole.

15 Finally, the purchasers' responses did not
16 indicate that domestic producers had lowered their prices to
17 compete with subject imports. There was likewise no price
18 suppression by subject imports. The domestic industry
19 experienced a cost-price squeeze over the POI, as it was
20 unsuccessful in passing through increases in raw material
21 costs to its customers, but not because of subject imports.

22 Hot-rolled steel is the primary raw material
23 used in the production of SPC, and accounts for a
24 substantial share of COGS. The price of HRC increased
25 substantially over the POI, owing at least in part to the

1 imposition of AD/CVD duties in 2016 and more importantly and
2 more dramatically, to the imposition of Section 232 tariffs
3 in March 2018.

4 We note that the Commission, as they pointed
5 out today, will search in vain for any mention of the 232
6 tariffs in Petitioners' prehearing brief. Now if the
7 inability to pass through these increased costs was
8 attributable to the effect of subject imports, one would
9 expect that the domestic industry would achieve the lowest
10 level of price increases in the products and channels where
11 subject imports have the greatest presence and arguably the
12 greatest degree of competitive overlap.

13 The data on the record, as presented at Slide
14 10, show that the opposite is true. The domestic industry
15 achieved the lowest price increases in the product and
16 segments where it absolutely dominates, and that's Products
17 2 and 4, where there is very little subject import presence.
18 Where subject imports have a greater presence, the industry
19 achieved far greater price increases.

20 The reasons for this fact pattern are
21 confidential, but generally have to do with domestic
22 producers contract terms as discussed in detail in our
23 prehearing brief at pages 38-39 and 53 to 54. In short, in
24 their brief and in their panel this morning, Petitioners
25 have claimed that the presence of subject imports anywhere

1 in the market leads to price effects everywhere in the
2 market.

3 This claim is unsupported by the record
4 evidence in a number of respects. First, Petitioners' panel
5 this morning said that import pricing pressure at retailers
6 transmits to gas exchangers. But look at your record
7 evidence on this. Product 4 is the 20 pound cylinders sold
8 to retailers. In this product, subject imports oversold in
9 a majority of instances and in quantity, and it's not even
10 close. So how is import overselling transmitting adverse
11 price effects to gas exchangers?

12 Second, as shown at Slide 11, Petitioners have
13 failed to mention a key piece of information in the document
14 as a basis for their claim that price effects purveyed
15 throughout the market. I'll take a moment for you to review
16 that slide, because I can't obviously say anything about it
17 publicly.

18 Moving on to Slide 12, it is clear that based
19 on the information highlighted in Slide 11, that subject
20 imports are not the driving force behind this particular
21 clause. And this becomes more apparent when examining Slide
22 14, which compares the relevant data in subject import data.
23 Finally, and most compelling of all, there is the record
24 evidence presented at Slide 14.

25 Even if for the purposes of argument one were

1 to assume that, the information the previous three slides
2 did not govern these transactions, one would expect the
3 record evidence to support that subject import prices would
4 be low enough to have an adverse effect everywhere in the
5 market.

6 But as shown quite clearly on this Slide 14,
7 the record evidence does not support that contention.
8 There's a lot to digest in these last few slides and I'm
9 sorry I can't be more specific in my discussion due to
10 confidential information. But regardless, we submit that
11 the record shows that the domestic industry's inability to
12 pass through greater price increases to its customers cannot
13 be attributed to subject imports.

14 For similar reasons, the underselling by
15 subject imports is not significant. As shown previously at
16 Slide 10, in the Products 2 and 4 that account for the
17 overwhelming majority of domestic industry sales of Pricing
18 Products and their shipments overall, the comparative
19 volumes of lower priced subject imports are far too small to
20 have any meaningful impact on the domestic industry's prices
21 or sales. This is particularly true when one considers the
22 pricing behavior of controlled imports, which as discussed
23 at page 52 and Exhibit 9 of our prehearing brief, and as
24 previously shown on Slide 3, substantially changes the
25 picture.

1 Suffice it to say that any underselling by
2 subject imports that is not controlled by domestic
3 producers, shown at our prehearing brief Exhibit 11, is even
4 less significant. See also Slide 15, which compares
5 controlled import pricing to pricing to other sources in the
6 product or controlled imports are most heavily
7 concentrated. I'm sorry 15. Oh, I'm sorry. That slides is
8 missing, from other products were controlled or most heavily
9 concentrated.

10 Mr. Page of Manchester this morning claimed
11 that they can't meet import prices even using import
12 strategies, that the Commission should weigh the credibility
13 of that claim in light of the record evidence. The products
14 in which subject import selling is actually concentrated,
15 Products 1, 3 and 5, were of little consequence to the
16 domestic industry, accounting for a very small share of
17 reported pricing data.

18 Moreover, any underselling serves as no
19 impediment to domestic producers' ability to raise their
20 prices substantially, far more substantially than in
21 Products 2 and 4, where they face little subject import
22 competition and were generally oversold. Thus, for all the
23 foregoing reasons, the domestic industry suffered no adverse
24 price effect by reason of subject imports.

25 Turning now to impact, the price suppression

1 analysis I discussed earlier is key to the Commission's
2 analysis of impact. The decline in domestic industry gross
3 and operating profit observed over the POI is driven almost
4 entirely by the increase in raw material costs, and the
5 industry's inability to pass them through fully.

6 Again, this was not attributable to the effect
7 of subject imports. As shown at Slide 15, which reproduces
8 our analysis from pages 70 and 71 of the prehearing brief,
9 if the domestic industry had been able to achieve the same
10 price increases in its overall business that it achieved in
11 Pricing Products 1, 3, 5 and 7, where both subject import
12 volume and underselling were concentrated, it would have
13 experienced increasing profits over the POI.

14 There's simply no causal link between trends
15 in the industry's financial performance and any effect of
16 subject imports. I also want to point out that Petitioners
17 this morning claimed that increases in raw material prices
18 were not the issue, and that they could simply hedge them
19 away with financial instruments. But if you actually look
20 at the numbers on Slide 15, it's very clear that it was the
21 increase in the raw materials cost that drove the downward
22 decline in their operating income, because there was an
23 increase in their net sales, just not enough to fully
24 recover that.

25 So if they truly were able to just hedge this

1 away, this is not what you would see in the data.

2 MR. DOUGAN: The domestic industry's
3 employment and investment indicia also show no adverse
4 impact of subject imports. As shown on Slide 16,
5 production-related workers, hours worked by
6 production-related workers, wages paid and hourly wages all
7 increased over the POI. As shown on Slide 18, the domestic
8 industry capital expenditures increased tremendously, all
9 the while as Cap X to depreciation ratio indicated that it
10 was investing in its assets far more than required to simply
11 replace economically depleted assets.

12 This can be seen from the fact that the
13 industry's net assets also increased significantly over the
14 POI. In sum, the record evidence does not support a finding
15 that subject imports caused any material adverse effects to
16 the domestic industry. Therefore the Commission should make
17 a negative determination with respect to current material
18 injury. Thank you. I will now turn it over to our first
19 industry witnesses and then -- first to our industry
20 witnesses and then to Mr. Menegaz, who will discuss why the
21 Commission should also make a negative threat determination.
22 Thank you.

23 STATEMENT OF BRAD CANCELOSI

24 MR. CANCELOSI: Good afternoon. My name is
25 Brad Cancelosi, Vice President of Operations of Worldwide

1 Distribution. I have served various roles since 2005. I am
2 now a part owner. Behind me is the CEO, Rob Simon, majority
3 stakeholder, who started the company 2003 and before that
4 spent many years as the VP of Merchandising for Airline
5 brands, and that's now a Home Depot Company. We have 13
6 employees in two U.S. offices. Gas is not our only product.
7 They range from plumbing and electrical, hardware and gas.

8 We serve as RV distributors, wholesalers, OEMs
9 and retailers. Our exponential business growth is derived
10 by serving the customers' needs, and by adding value to the
11 supply chain, and that has led us to strong business
12 relationships and loyalties amongst its partners with our
13 customers and suppliers alike.

14 During the Period of Investigation from 2016
15 to 2018, Worldwide Distribution imported all of its
16 cylinders from Shandong Huanri Group. The vast majority of
17 those cylinders were shipped to distributors that supply the
18 RV manufacturing industry. We have been limited to
19 supplying and participating in this industry segment for
20 many years, during which time we encountered numerous
21 business conditions out of our control which affected our
22 business and import volumes over the period of interest.

23 We believe that Worldwide Distribution is the
24 largest importer of Chinese cylinders in the United States,
25 and again all of those come from Huanri. They're under the

1 4BA/4BW classification, and again all are sent into the RV
2 market. We do this through very close cooperation because
3 Huanri has significant commitments in emerging and domestic
4 China markets. The factory uses its capacity for other
5 opportunities such as India, Bangladesh, Southeast Asia and
6 more largely the domestic China market, where cylinder
7 volumes are substantially higher than what we import on any
8 given year during the POI.

9 Due to the high capacity utilization at
10 Huanri, production planning for the U.S. market is carefully
11 done based on purchase orders received, and executed quickly
12 so that lines can be reallocated for production of other
13 tanks. This also enables us to arrange the DOT required
14 inspections on large scale amounts of production at one
15 time, which reduces fixed costs and allows for reasonable
16 stock of materials so that ordered quantities can be
17 delivered on time.

18 While we are close partners with Huanri, it is
19 our responsibility to our clients to seek out and qualify
20 potential manufacturing locations for both domestically and
21 worldwide. Having been involved in the RV propane market
22 for more than 15 years, we are personally familiar with all
23 relevant foreign producers of DOT 4BA and 4BW cylinders in
24 China as well as other countries, in the past, present and
25 the future.

1 There are not 18 Chinese producers of
2 DOT-approved 4BA and 4BW portable propane cylinders, as
3 pointed out. According to the PMHSA DOT website, there are
4 roughly five facilities with the proper DOT approvals,
5 Taishan Machinery, Yuxin Machinery, Huanri, Zhongshan and
6 TPA. As stated in the preliminary conference, Tai-Shen
7 Machinery has shifted its production lines away from the USA
8 to serve other markets. TPA, as one witness testified in
9 the preliminary conference, also dropped its U.S.
10 production lines due to labor shortages.

11 I understand from my own personal meetings
12 that the majority of GSBF's production lines is for large
13 cylinders outside the scope of the investigation, but it
14 does produce a small volume of subject cylinders as a
15 convenience to its customers. We have never heard of any
16 tanks from Youshin Machinery manufactured due to DOT
17 standards.

18 Firstly, we have to identify whether a
19 producer already has DOT approvals. Both Jiaxing Pressure
20 Vessel and Hubei Daley do not, according to our preliminary
21 post-conference briefs and according to the phmsa.dot.gov
22 website. DOT approval is a major obstacle in manufacturing.
23 Obtaining the approvals is a significant investment in
24 facility upgrades, testing, certification and continuous
25 inspection fees.

1 The lead time for approval is at least one
2 year and possibly longer now since DOT is backlogged from
3 the government shutdown earlier this year. If a facility
4 does have DOT approval, only 4BA and 4BW can be used, which
5 is the industry standard for portable cylinders on
6 horizontal and vertical wells. Many DOT certifications for
7 China are for other categories. In conclusion, there is
8 only one major Chinese manufacturer of DOT portable
9 cylinders Huanri, and this can be confirmed by independent
10 trade data of imports and DOT approval searches that are
11 publicly listed.

12 This situation is quite similar to the
13 domestic manufacturing market. The American Society of
14 Mechanical Engineers website shows that there are more
15 ASME-certified propane tank manufacturers which are also the
16 scope of the investigation than can be counted. But
17 everyone in the industry knows that the Petitioners are the
18 entire U.S. steel propane cylinder market.

19 The largest market in the U.S. is the two main
20 gas exchangers. An exchangers, as you've all heard, is a
21 company who purchases a new propane tank or refurbishes an
22 old one and fills it with gas. These gas exchangers can be
23 located at many locations from gas stations to retail
24 stores. We were told by the first gas exchanger very
25 frankly that they are only interested in a domestic

1 product.

2 The second gave us an opportunity to their
3 west coast distribution center only within the POI. We ran
4 a production run of a few thousand cylinders in 2016 to
5 their west coast DC, and that met technical limitations due
6 to overseas manufacturing. Our tank was heavy, allowing
7 less filled tanks per truck during distribution, increasing
8 their freight costs. The fill rate of our OPD valve was
9 slower, increasing the fill time necessary for each unit.

10 Our purging equipment overseas was not
11 requested -- was not able to reach the requested pressure,
12 leaving less of a vacuum and further slowed the filling of
13 the cylinders. The domestic pallets that they here were not
14 available overseas, and affected the storage plans at the
15 warehouses and on the trucks. We used to be given a yearly
16 opportunity to quote this business, but have not been
17 invited to do so since 2016.

18 The second largest market in the U.S. for
19 propane cylinders is the retail industry. This includes big
20 box stores such as Home Depot and Lowe's, or regional retail
21 chain stores like Menard's, Rural King, Ace Hardware, True
22 Valu and the like. Many of these purchases not only include
23 new cylinders for sale at their shelves, but exchange
24 locations outside of their storefronts with full cylinders
25 supplied by the refillers.

1 We have not been able to actively participate
2 in this market because we lack a full line of products.
3 Retailers purchase one pound disposable cylinders for which
4 there is only one U.S. manufacturer. They also have
5 numerous sizes such as 10 pound, 11 pound, 50 pound and 60
6 pound, for which we do not have the tooling nor the
7 approvals for.

8 By not being able to provide a whole line of
9 products, we are often at a significant advantage (sic) in
10 this segment. Oh, I'm sorry, a significant disadvantage in
11 the segment. Business in the retail market usually -- is
12 usually an annual or a longer period of time review process,
13 where pricing has to be held for extended periods of time.

14 There are no purchase orders given for future
15 shipments outside of a normal lead time. This makes it
16 difficult for us to secure raw materials like steel and
17 brass, and we also encounter a significant exchange rate
18 risk if longer lead times are requested. Selling to
19 retailers typically includes advertising expenses, which we
20 view as an additional cost and are not accustomed to doing.
21 It requires extended payment terms, which pinches our cash
22 flows since we have to make deposits to purchase material.

23 From our experience in the retail industry
24 with other products, there is also a high percentage of
25 chargebacks due to the retail change return policy. In our

1 remarket, only 20, 30 and a few 40 pound cylinders are used.
2 Purchasers buy on spot and pricing is routinely updated with
3 current steel, brass and currency exchange values. Orders
4 are placed in advance for the amount of cylinders they want
5 to be delivered over a certain period of time.

6 This allows us to hold price for them in the
7 future, but also insulates us from any normal raw material
8 or currency risk. Payment is made sooner after invoicing,
9 easing our cash flow. While both steel and RMB were
10 volatile during the POI, the largest impact to our business
11 was the 301 tariffs. While their ten percent impact on
12 landed cost happened in September of 2018, its effects were
13 felt much earlier in the year when this one was released.

14 It raised general anxiety for those importing
15 from China. Knowing that 301 tariffs would soon be reaching
16 many other items -- I just lost my place -- would be
17 reaching many other items, purchasers began looking for
18 domestic opportunities. We assumed that the uncertainty of
19 when the 301 tariff would be implemented, in addition to the
20 forthcoming CVD duties in October, would eliminate the
21 demand for our imports sooner.

22 To our surprise during all of this
23 uncertainty, after normal levels of inventories depleted,
24 the tariff went into effect and the subsequent CVD duties
25 implemented, we still received a number of inquiries from

1 not only RV purchasers but smaller regional retailers unable
2 to get domestic supply. One of our purchasers reported that
3 in September of 2018, they were quoted by one of the
4 Petitioners for delivery in March 2019.

5 The second reported that the cylinders were
6 quoted from Portugal and not U.S.-made. Our regional
7 retailer continued to purchase from us, reporting that they
8 were unable to get cylinders to sell without an extensive
9 lead time, and a second encouraged us to supply one of their
10 regional distribution centers in the Midwest. Ultimately,
11 we did not pursue the business because there were too many
12 economic variables and we were not sure when the 301 tariff
13 rate would increase from 10 to 25 percent.

14 We would have thought that based on the
15 Petitioners' testimony in the preliminary conference that
16 they had ample capacity to meet the demand of the whole U.S.
17 market. Despite the fact that the price went up over 35
18 percent over the course of the year, the Petitioners
19 continued to import cylinders from subject and non-subject
20 countries alike.

21 There is no visible production from the
22 Petitioners' Elkhart facility of 30 pound tanks in the
23 market during the POI, even towards the end. They claim
24 that they had sufficient production allocation to meet the
25 additional requirement of the RV market, yet quoted six

1 month lead times, or quite often not at all.

2 This just demonstrates their long-standing
3 process of allocating their resources to other high volume
4 markets, and completely ignoring the small market. Our
5 business continued to be successful because we could have
6 product delivered in seven days for new production, or 25
7 days shipping out of inventory.

8 As the staff report indicated, purchasers
9 cited first cited approvals first, delivery and availability
10 second, and price as the third factor of purchasing. As the
11 economic portion of our presentation indicates, our product
12 had little impact on the Petitioners' industry and poses
13 little future threat. We do not compete with them in the
14 larger percentage of the U.S. market for steel cylinders.

15 This is due to the technical limitations of
16 our product, their strong relationships with volume
17 accounts, and the way that business is conducted with them.
18 Or the ability to supply a line of gas cylinders in various
19 sizes within the scope or outside the scope of the
20 investigation. With constant demand and limited import
21 supply, the Petitioners were not willing to allocate
22 capacity to a market segment under circumstances which were
23 acceptable to our customers.

24 This is not based on price. This is why there
25 is a need for our product in this market, and why we are not

1 causing injury or threatening to cause injury to the
2 domestic industry. Thank you.

3 STATEMENT OF ERIC BRUMBAUGH

4 MR. BRUMBAUGH: Good afternoon. My name is Eric
5 Brumbaugh and I'm a former CPA and currently the General
6 Manager of Operations at UFP Distribution LLC, a subsidiary
7 of Universal Forest Products.

8 Prior to this role, I was the Operations Manager
9 for UFPD since April 2010. In April 2010, a former partner
10 and I sold our distribution company, a business we grew
11 since its inception in 2002, to Universal Forest Products
12 when they decided to form UFPD.

13 Since the time UFPD decided to start selling
14 liquid propane cylinders, I have also acted as the Product
15 Manager over this category because of its relevance to our
16 company as one of our largest in sales volume. I maintain
17 that role today.

18 UFPD is based in Elkhart, Indiana, and operates
19 additional warehouses in Athena, Oregon, Cordele, Georgia,
20 and through independent warehouses in several other states,
21 including California. The primary markets we service are
22 the manufactured housing and recreational vehicle
23 industries, and the products can generally be considered
24 building materials and other related components.

25 This network of warehouses allows us to service

1 the RV industry in California and the Northwest. With the
2 goal of expanding our product offerings into the RV
3 industry, we embarked on a search, with the help of key RV
4 OEM customers, for product categories where there was a need
5 for improved market presence or services that we felt
6 complemented our company's goals.

7 LP cylinders and the related package of add-on
8 items fit our agenda for growth. Our research pointed to
9 these areas where we could build a presence in this category
10 using these strategies:

11 Number one, we were encouraged to have dual
12 sources. Specifically, one domestic supplier and one
13 imported cylinder supplier purchased through a broker
14 already in the business. Our customers understand the
15 impact of supply chain issues, and certainly like the
16 benefit of splitting the business in order to react if
17 necessary.

18 In the case of port strikes in California several
19 years ago, this policy made sense. And because of UFPD's
20 plans, we gained a lot of support among customers for having
21 this supply chain setup.

22 To achieve this dual source strategy, we
23 established working relationships with Worldwide for our
24 import cylinders and with Worthington for our domestic
25 supply.

1 The second thing we were looking at was our
2 customers' needs, and here are some of the areas we focused
3 on that they said that they wanted.

4 Number one, a full package of products. This
5 means they preferred to buy cylinders from the same company
6 supply pan kits, regulators, and hoses that complemented the
7 cylinders. Certainly there are examples of differences
8 today, but that was the model in place when we started this
9 category.

10 Product support and service levels. Based on our
11 customer relations at some of the largest producers of RVs
12 in the United States, we felt confident that we stood a good
13 chance of gaining significant market share if we performed
14 at the service levels we believe we can meet based on the
15 other products we were servicing them with.

16 If we did these things well, we could quickly
17 gain market share. More importantly, we could gain that
18 share with market average unit sales prices. Our service
19 level would end up saving our customers costs in the long
20 run.

21 From the years 2012 through 2015, our market
22 share grew steadily, but leveled off over that time period.
23 Our purchases during that same time frame were virtually
24 split 50/50 between Worthington and our import sources.
25 Without sharing actual numbers, you can assume the cost

1 differences were not substantial.

2 We always quoted all customers the Worthington
3 cylinder as well as the import cylinder and allowed them to
4 choose which they preferred to purchase. Many customers
5 opted to buy both products, splitting it across multiple
6 plants, to provide an insurance policy over supply chain
7 issues.

8 The ultimate tipping point that changed our
9 sourcing mix came during the period of large steel price
10 decreases that happened during the 2015-2016 time frame.
11 This was originally summarized in our lost sales and lost
12 revenue survey response.

13 The backdrop to this is that from the fourth
14 quarter of 2014 until the first quarter of 2016, domestic
15 steel prices fell by over 40 percent. In the fall of 2015,
16 we were negotiating a new 12-month contract with our largest
17 user of Worthington cylinders. Worthington understood that
18 we were bidding on this business, and that the competition
19 was active, especially from Manchester.

20 But instead of lowering the prices commensurate
21 with steel's reductions, they offered very modest decreases
22 for our 30-pound cylinder, just under a 4 percent reduction,
23 and held the 20-pound price at the same level we had had
24 from earlier in 2015.

25 This implied price increase pushed the customer

1 into making a change to an import cylinder, the price of
2 which was more in line with the other competitive bidders
3 for that business at that time.

4 If we did not move this volume away from
5 Worthington to our import source, we were at serious
6 jeopardy of losing it entirely. Fortunately, from UFPD's
7 perspective, we performed well as a distributor and thus
8 kept that customer's business.

9 This single event has had a lingering impact
10 certainly for this significant customer. RV OEMs follow the
11 steel market closely because it's used in the frames for
12 each of their units. They understood that steel prices had
13 dropped, and when it was not properly reflected in the
14 pricing for their cylinders they lost a lot of trust in
15 Worthington.

16 Historically the price for import cylinders had
17 been less than the price for the Worthington cylinder, and
18 up to this point our customer had been willing to pay more
19 for the Worthington cylinder. After this incident, however,
20 they felt that Worthington did not value them as a customer.

21 The result of this business decision by
22 Worthington has never been reversed. Despite regular review
23 by UFPD and the sales manager from Worthington, they remain
24 insensitive to the correlation between steel prices and the
25 price of their LP cylinders. UFPD encouraged our major

1 customers to keep some business with this domestic supplier
2 but otherwise continue to make strategic purchasing
3 decisions based on the steel market globally.

4 Our relationship with Worthington over the last
5 12 to 18 months? Well, we've had a good working
6 relationship with them since we started buying from them in
7 2012. They agreed to abandon their former distribution
8 partner and join forces with us to gain back lost share.
9 Together we attacked the market and we grew Worthington's
10 market share and achieved good success, as previously
11 noted.

12 During the POI, our purchases with Worthington
13 have been very consistent, with some drop off in 2018 as the
14 RV market has slowed. Worthington passed along a couple of
15 price increases in 2018. These were reasonably tied to the
16 price of steel in the global market, as well as the impacts
17 of the 232 investigations, and the resulting tariffs that
18 impacted the domestic market.

19 In fact, all domestic import sources were also
20 going up in prices during this period, mirroring the steel
21 increases. These increases were passed along in the RV
22 markets we serve with grumbling but no loss of volumes.

23 The real hit occurred in July of 2018 when
24 Worthington announced a very large increase, 20 percent on
25 20-pound cylinders, and 45 percent on 30-pound cylinders,

1 months before the preliminary CVD rates came out in October
2 of 2018 and the antidumping rates in December of 2018. This
3 increase mostly coincided with the Preliminary Determination
4 released by the U.S. ITC in early July of 2018.

5 When we asked Worthington for the reasoning for
6 these substantial increases, there was some pointing towards
7 the steel market in general. However, the RV industry read
8 this totally differently. They considered the action to be
9 opportunistic. In fact, UFPD Distribution specifically
10 mentioned to Worthington that this was not going to help us
11 increase their presence in the RV industry.

12 The response at the time was: We are so busy, we
13 really don't want the volume.

14 At that time, UFPD saw our lead times increased
15 to 9 to 10 weeks from Worthington, from the traditional 3 to
16 4 week lead time. Later in 2018, upon UFPD's continued
17 requests for help in the supply chain, Worthington's best
18 offer was for a take-or-pay arrangement to have cylinders
19 shipped via container from their facility in Portugal.
20 Despite steel prices having dropped a substantial percentage
21 now from the peaks in 2018, Worthington has yet to provide
22 any price decrease for UFPD to pass along to the RV
23 industry to the remaining customers, or to try to grow
24 market share.

25 As to our history with Manchester, over the years

1 we have competed directly with Manchester. In fact, one of
2 our largest contracts won was when we replaced Manchester's
3 business at that large RV OEM that I mentioned earlier, and
4 of course we did that by selling the Worthington cylinder.

5 From our perspective, why did Manchester not have
6 more share in the RV market? Poor sales management and
7 customer relations. Probably the single largest factor that
8 we consistently performed well against Manchester, was our
9 sales presence and our service levels. Several major
10 customers have stated over the years that, while Manchester
11 would visit and try to solicit business, they never followed
12 through with a full quote of the products they were
13 selling.

14 UFPD wonders why after all these years Manchester
15 never approached us to see if we could help them, given we
16 have a significant market share and have our primary
17 warehouse across town from their Elkhart manufacturing
18 facility.

19 As of today, Manchester has partnered with
20 another Elkhart-based distributor to try to help them sell
21 and market their products. In the 12 months ended with the
22 filing of the Petition by Worthington and Manchester in May
23 of 2018, UFPD had sold over 325,000 LP cylinders to the RV
24 industry, making us the leading distributor in the category.
25 We are still dual-sourced by Worthington and imports, but

1 our largest threat moving forward--and we have communicated
2 this continually to our customers--is our continued supply
3 chain options. Even without the actions of this particular
4 Petition, the 301 investigations resulted in a 25 percent
5 tariff on any cylinders we purchased from China through
6 Worldwide.

7 In addition, based on our current prices,
8 Worthington is not offering the necessary supply of domestic
9 cylinders, although we do believe the Portugal option
10 previously mentioned is available but we need to vet that,
11 which will take us time.

12 I thank you, and by proxy our RV OEM customers
13 thank you for the opportunity to speak today.

14 MR. MENEGAZ: Good afternoon. This is Greg
15 Menegaz. I just wanted to point out something that may not
16 have been heard properly in Brad Cancelosi's testimony about
17 the lead times. He indicated that for new production orders
18 it would be 75 days from China, and that if they were
19 shipping out of inventory it would be 25 days. So you may
20 not have heard that, but I wanted to clarify that before
21 moving to the threat section of the argument.

22 So again, moving on to the threat argument, we do
23 believe the Commission should decumulate China and Thailand
24 in determining the threat of material injury. The
25 Commission has the discretion to decumulate for purposes of

1 its threat analysis. The Commission typically can
2 decumulate threat where imports from different countries
3 show different volumes and pricing trends.

4 In our case, subject imports from China have very
5 different volume and pricing trends compared to subject
6 imports from Thailand.

7 First of all, as addressed in this prehearing
8 staff report and our brief, the Administration imposed a 10
9 percent tariff on the basket HTS numbers applicable to the
10 subject cylinders from China under 301 on September 24,
11 2018, which was the last quarter of the POI.

12 And as some of the witnesses have suggested, the
13 markets were roiled well before that. But less than a month
14 before this hearing on May 10th, 2019, the Section 301
15 tariffs on these cylinders was increased to 25 percent,
16 except for products shipped before May 10th and arriving
17 after June 1st. For the foreseeable future, subsequent to
18 the Commission's vote, all subject imports from China will
19 face this 25 percent tariff, which gives the Petitioners and
20 other foreign producers a very significant and distinct
21 price advantage.

22 So we think that that is an identification of a
23 very significant volume trend that is different that merits
24 decumulation in and of itself.

25 To illustrate that, Huanri has established by the

1 confidential data and from testimony, the largest and really
2 main exporter from China is getting fewer and fewer orders
3 from its U.S. importer Worldwide because of these tariffs.
4 Worldwide has testified that they felt the impact of the 10
5 percent tariffs from the first time the list was released.
6 And by September of 2018, the 301 tariffs applicable to
7 subject imports from China immediately increased landed cost
8 by 10 percent, and the fear of it going up to 25 percent
9 cost them sales.

10 More importantly, importers have arranged very
11 few shipments from China in the whole year of 2019, as
12 Worldwide's confidential data substantiates. These 301
13 tariffs are substantial and unique to imports from China.
14 This alone justifies decumulation for purposes of the threat
15 analysis.

16 You know, we've already participated in several
17 rounds of exclusion requests on 301 products and, you know,
18 the forms currently say you have to prove there's absolutely
19 no domestic production or you're out of luck. And so our
20 firm had very few of our applications approved, and it was
21 only when there was absolutely no production in the United
22 States. Where there was an extreme short supply, it didn't
23 matter. The Administration didn't care. They kept the
24 products on the list. Obviously there's domestic
25 production, so there's no way these products are coming off

1 this list. And we don't think it' fair to speculate as to
2 when or whether those sanctions will be removed.

3 Now with respect to China itself, the Staff
4 Report indicated that there was very significant coverage
5 already for Huanri and GSBF. And we believe that Huanri is
6 overwhelmingly the largest exporter from China. And, you
7 know, Brad Cancelosi spoke to this a little bit before.
8 This is a highly regulated industry. DOT certifications are
9 not handed out lightly. There are very few for the products
10 of concern. And even after you have that, then you have to
11 pay very significant inspection fees to monitor the foreign
12 production, which are much less burdensome and expensive in
13 the U.S. market.

14 So we believe that the record, in light of all
15 these facts, supports that there is not some hoard of some
16 18 DOT-approved exporters gearing up to ship to the United
17 States, unlike what the Petitioners assert in their
18 prehearing brief.

19 Now we also made the point about the controlled
20 imports. You heard testimony this morning that they've
21 stopped importing. We don't know if that's temporary for
22 the, you know, final phase of this investigation or not, but
23 the fact is there is a special trading relationship with a
24 U.S. producer and a Thai producer.

25 So we just think that that's kind of a unique

1 development, and especially in light of the pricing data
2 that results from that relationship. We think that that
3 could be considered along with the 301 sanctions as a reason
4 to treat the two countries differently for threat.

5 However, if you were to cumulate them
6 nonetheless, you know, we think that the Chinese data shows
7 that they're operating at a very high capacity with very
8 large domestic and overseas markets. So already the Chinese
9 have limited ability to direct more shipments to the United
10 States. Then you add on top of it the 301.

11 So just because you're cumulating doesn't mean
12 the effect of the 301 goes away. It's still a very major
13 factor even in the cumulated data.

14 And so for all these reasons, we think that the
15 Commission should make a negative threat finding in this
16 investigation. And that concludes our formal testimony.
17 Thank you.

18 CHAIRMAN JOHANSON: Thanks to all of you for
19 appearing here today. We will begin Commissioner questions
20 with Commissioner Williamson.

21 COMMISSIONER WILLIAMSON: Thank you. I want to
22 express my appreciation to all the witnesses for their
23 testimony this afternoon.

24 Just quickly, Mr. Menegaz, on the question of the
25 301, I take your point about the possibilities of exemption,

1 but what about the question of just how long these things
2 are going to be likely to last? I mean, you almost had a
3 deal a couple of weeks ago, just on negotiation. What do we
4 make of the fact that 301 tariffs could go away any time in
5 the next few months?

6 MR. MENEGAZ: Well the simple fact is, why
7 speculate at all? The Commission has to deal with the facts
8 that are in front of the Commission. So I'm reading the
9 press very differently from the Petitioners' counsel that,
10 you know, that the sides are digging in their heels and this
11 is going to be a long battle. But ultimately it's all
12 speculation.

13 The Commission has to evaluate whether those
14 sanctions are in effect at the time of the vote. And if
15 they're in effect, how can you just, you know, hope, or
16 wish, or speculate that they will disappear at some point in
17 the near future?

18 COMMISSIONER WILLIAMSON: Well if we're looking
19 at threat, we're looking at what's likely to happen going
20 forward. And, yes, I understand it's speculation, but--

21 MR. MENEGAZ: Well, you know, President Trump is
22 talking about expanding the sanctions. And he made a deal
23 with Mexico on lifting one set of sanctions, and then added
24 a new set of sanctions. So it's a very troublesome
25 environment, particularly with respect to China. And he

1 actually has a lot of support in the Congress with respect
2 to China.

3 So, you know, they're using words like a formal
4 decoupling of the economies. This is a watershed event in
5 history. This is not a short-term event, in our view. But
6 all we can say is that the Commission should take this into
7 account if the sanctions remain in effect at vote time.

8 COMMISSIONER WILLIAMSON: Okay, yes, I agree with
9 you about watershed, and speculative, and all, and no one
10 knows what's going to happen, so let's leave it at that.

11 Let's see. The Petitioners note at page 5 of
12 their brief on the note four that Commerce has altered the
13 wording of the scope to make it clear that includes
14 cylinders made to the relevant DOT specifications that hold
15 other gases. That raises questions this morning, and I
16 wondered if you had any comments about should that affect
17 our determination here?

18 MR. MENEGAZ: This is Greg Menegaz with
19 DeKieffer. First of all, our main intention was to make
20 sure that the scope was clear to the Commission in that
21 section. We have been annoyed, as the Respondents bar, that
22 Petitioners have often very late in cases tried to vastly
23 expand the scope of cases. I will say that.

24 In this case, we don't see the refrigerant as a
25 major issue. The Chinese aren't exporting very much, and so

1 we think that the record is complete that this case is
2 mainly about the propane cylinders, and that we think you
3 have a complete record from both sides with respect to the
4 propane cylinders.

5 COMMISSIONER WILLIAMSON: Thank you. Do you have
6 any domestic industry or related parties arguments to make
7 on those issues that we need to look at?

8 MR. MENEGAZ: We do not plan to make any such
9 arguments.

10 COMMISSIONER WILLIAMSON: Okay, thank you. What
11 are your expectations for demand in the immediate future for
12 this product? The industry folks may have some thoughts on
13 that.

14 MR. BRUMBAUGH: This is Eric from UFP
15 Distribution. The RV industry as a whole, in the trailing
16 12 months just ended, was off 25 to 30 percent from what it
17 had been the previous trailing 12 months.

18 There's been a lot of industry speculation that
19 we overbuilt as an industry, had too much inventory, and
20 certainly that was a factor. But I also believe as a
21 discretionary item that it is one of the first signs that
22 there's a potential slowness at least in the consumer's eyes
23 that that's something they don't want to purchase
24 necessarily right now.

25 So I think we're as an industry trying to decide,

1 you know, yes, we had an inventory bubble, but it seems to
2 be lasting a little longer; that there may have been also
3 some underlying reduction in demand for the product and
4 we're waiting to see.

5 MR. DOUGAN: Commissioner Williamson?

6 COMMISSIONER WILLIAMSON: Yes?

7 MR. DOUGAN: Sorry, Jim Dougan from UCS, if I
8 could add. In Eric speaking to the industry segment that he
9 knows, which of course is the RVs, but from the demand
10 information that you've seen on the record that he obviously
11 isn't able to have access to, as we pointed out the lion's
12 share, if not all of the increase in demand, was
13 attributable to the gas exchanger segment.

14 And, you know, Petitioners this morning claimed
15 that, well, that was a temporary spike and there were
16 natural disasters and things like that. And that, as we've
17 sort of seen, those things seem to be happening. Those
18 natural disasters, those once-in-a-century hurricanes seem
19 to be happening more frequently, and every year it seems.
20 So those aren't temporary blips. Those are things that
21 might continue to happen in the future.

22 But regardless of any temporary blips, I think
23 Commissioner Schmidtlein rightly pointed out that you see
24 from the pricing data in product two that the demand and the
25 shipments for the gas exchangers, again which is driving

1 demand for everything in this market, has been pretty much
2 growing across the POI and not subject to temporary spikes.

3 So we don't have anyone here who really sells to
4 the gas exchanger market, so they can't really talk to that,
5 but it would seem that that trend would continue absent
6 other factors.

7 COMMISSIONER WILLIAMSON: Okay. Anything in the
8 economy that would make you think that, other than the RV
9 industry where we maybe have a possibility of overbuilding,
10 and consumer caution, that demand is not going to continue
11 to grow the economy?

12 MR. DOUGAN: Jim Dougan from UCS. I'll give that
13 some more thought posthearing. Right now, I don't have
14 anything. Thanks.

15 COMMISSIONER WILLIAMSON: Okay, thank you. Is
16 there a share of subject imports that have the thicker
17 walls? And is there any reason why we should take--is this
18 relevant to our determination?

19 (Pause.)

20 I mean Petitioner is basically saying people
21 can't tell, and it's--

22 MR. CANCELOSI: Brad Cancelosi, Worldwide
23 Distribution. I think Eric can probably follow up after
24 this. It really goes both ways, as I testified, for the
25 refiller market, a lighter weight tank of 16.6 pounds is

1 obviously advantageous because it's a lighter tank, plus
2 gas, equals more per truck. And then that's under DOT
3 weight restrictions when they transport it. Our heavier
4 tank is 2 pounds heavier. It doesn't work for us there.
5 But where it does work for us is in the RV industry. And
6 sort of think about how the RV industry works is RVs are
7 manufactured in the factory and they go from station to
8 station. Eric and our other distributor distributes a whole
9 host of products that go into their warehouse, and there's
10 different stations where one guy puts in a faucet, and one
11 guy puts in a propane tank, and puts on the regulator, and
12 these things--you know, propane tanks are shuffled around.
13 And guys that wake up at four o'clock in the morning and
14 work a long hard day, they're not really being very careful
15 with the propane tank. And so absolutely a tank with a
16 thinner cylinder wall, while it still meets DOT
17 specifications, is just more likely to dent when you drop
18 it. And a thicker cylinder is less likely to dent when you
19 drop it, or the effects would be less than a lighter weight
20 cylinder.

21 But just as it's an advantage in one area, it's
22 also a disadvantage in the other area.

23 Eric, did you want to add to that?

24 MR. BRUMBAUGH: Yeah, this is Eric from UFP
25 Distribution. Brad pretty much hit on it. The work

1 environment--and as a side note, if any of you ever have the
2 opportunity to come out to the Midwest and watch an RV
3 industry factory in operation, you will--it's a
4 life-changing experience, I'll tell 'ya. Just to consider
5 the fact that a factory might produce 20 to 25 of these a
6 day, basically building small houses in that kind of time
7 period, is pretty incredible.

8 But it goes to the point that they're not being
9 careful with the materials they use as they're moving them
10 around. And so it definitely is advantageous if they have
11 something that is a little more stout. But it's a unique
12 characteristic to that environment.

13 Certainly most people wouldn't want to carry a
14 heavier tank. So it's definitely a unique characteristic
15 that the RV industry finds helpful.

16 COMMISSIONER WILLIAMSON: Any idea what
17 percentage of the demand or the consumption is made up of
18 containers having thicker walls?

19 MR. BRUMBAUGH: I would say virtually all of the
20 import ones would consistently be heavier than--the cylinder
21 itself would be heavier than the domestic supplier's.

22 COMMISSIONER WILLIAMSON: Okay. Okay, any
23 evidence--I don't remember seeing from the staff report an
24 indication that purchasers were taking that into account,
25 any indication you've had that people are buying the

1 imports?

2 MR. SIMON: One of our customers did buy, as
3 Petitioners had suggested, that they bought some stock from
4 them, okay, at the time of the longshoreman's strike.

5 COMMISSIONER WILLIAMSON: At the time of the
6 what?

7 MR. SIMON: At the time of the longshoreman's
8 strike they bought some you know the Petitioners.

9 COMMISSIONER WILLIAMSON: Yeah.

10 MR. SIMON: That same customer told me that they
11 had to sell those off at a lower price because the plants
12 wouldn't accept them. They wanted our tank back because of
13 the thick walls because of the damage that could happen
14 online. I mean it's not like you're -- these are 45,000,
15 \$150,000 units you're putting these things in. They don't
16 want a tank that's really thin that would sit on a barbeque.
17 You know they want a good tank and that's what they're doing
18 and it perplexed them too because it's stronger. You know
19 it had thicker walls.

20 COMMISSIONER WILLIAMSON: Okay. Now, the
21 Petitioners argue that they have thicker walls because
22 they're produced with lower-quality steel failed at thinner
23 gauges. Anyone want to respond to that?

24 MR. CANCELOSI: It's because that the Asian
25 mills cannot control the tolerances the same way that U.S.

1 mills. At the end of the day, we meet the same spec. It's
2 not any lesser quality.

3 COMMISSIONER WILLIAMSON: Okay.

4 MR. CANCELOSI: It's a tolerance issue.

5 COMMISSIONER WILLIAMSON: Okay, I have no -- I
6 apologize to my colleagues for going over. I didn't realize
7 how much time had gone by.

8 CHAIRMAN JOHANSON: Commissioner Schmidtlein.

9 COMMISSIONER SCHMIDTLEIN: Okay. Alright, thank
10 you very much. I'd like to thank the witnesses for being
11 here today as well.

12 I'm going to kind of jump around here, I think,
13 a little bit. Let me just start with one preliminary
14 question. Do you all agree with the statement this morning
15 with regard to distributors; that the distributor
16 information we have and the data is -- these distributors
17 are selling to RV manufacturers?

18 MR. DOUGAN: We agree that that is substantially
19 true. We actually addressed this in our prehearing brief.
20 The discussion of this at page 25 and 26 of our prehearing
21 brief where we note that virtually all of the purchasers who
22 responded to questionnaires as distributors said that they
23 were distributors to RV. There were others, but that's why
24 we're saying they're essentially the same, but they're not
25 exactly the same.

1 COMMISSIONER SCHMIDTLEIN: Okay, alright, thank
2 you.

3 So, you've made the argument in the brief, and I
4 think in your statements, that the domestic industry has
5 neglected the RV market. And I know there was some
6 extensive testimony about -- and I thought that was
7 referring to an RV customer. I lost the trust when steel
8 prices were low and so forth. If that's the case, if the
9 domestic industry is neglecting the RV market or is
10 unwilling to supply the RV market, why do we see so much
11 underselling in our pricing data, right? Why aren't the
12 subject imports taking more advantage of the fact that they
13 don't have that competition, according to you all, from the
14 domestic industry because they're not willing to serve that
15 market?

16 MR. BRUMBAUGH: I guess the only way I can
17 reference that is we still compete against other
18 distributors who have multiple sources of tanks available to
19 them. I can answer that probably a little bit more clearly
20 in the post-hearing brief so I can divulge some names, but I
21 would say that's the primary reason. The RV industry are
22 very aggressive buyers as well.

23 COMMISSIONER SCHMIDTLEIN: So, the U.S. sells to
24 distributors that are servicing the RV market then.

25 MR. BRUMBAUGH: We buy from Worthington. This

1 is Eric from UFP Distribution. We buy from Worthington, so
2 we buy from a domestic supplier to service and we only
3 service into the RV industry. So, we've always maintained a
4 dual-source arrangement, as I referenced in my testimony
5 because of supply chain issues and because that's something
6 our customers really like. They like to make sure that they
7 have more than one source.

8 COMMISSIONER SCHMIDTLEIN: So, is it still you
9 all's position that the U.S. industry is unwilling or unable
10 to serve the RV market then?

11 MR. BRUMBAUGH: By virtue of our current pricing
12 structure that we have with our supplier, Worthington, it
13 would appear that they're unwilling to work with us because
14 the pricing is just --

15 COMMISSIONER SCHMIDTLEIN: Based on the price.

16 MR. BRUMBAUGH: Based on the fact that they're
17 offering -- their best offer was for cylinders out of
18 Portugal because they're so busy, domestically, and because
19 it's out of Portugal I'm going to say that the pricing was
20 heftier, yes.

21 COMMISSIONER SCHMIDTLEIN: Mr. Dougan?

22 MR. DOUGAN: Commissioner Schmidtlein, I can get
23 into this a little bit too. And I think this goes actually
24 to questions both you and Commissioner Kearns asked of the
25 domestic industry this morning and you noted the sort of

1 very large disparity in prices between Product 1 and Product
2 2 and actually a very large increase in the prices of
3 Product 1.

4 And so, in terms of how serious are they about
5 competing for this business, couldn't you sell for more than
6 you get from the gas exchangers, but less than what you're
7 charging now and maybe move a little bit more volume? They
8 didn't really have an answer to that either. And I think
9 some of this goes back to the response to all of our
10 analysis about these price increases and how they're getting
11 them where there's subject import competition and where
12 they're not getting them where they're not. And Mr.
13 Rosenthal had those slides that said, well, they lost market
14 share in all those segments where they got the price
15 increases, but their real volume -- I mean the overwhelming
16 volume that they do is to gas exchangers. That's really
17 where their action is. That's where they make their sales.

18 And as we have discussed before, gas exchangers
19 have been where all the demand has been. That's where all
20 the market has gone. And so all the increase in apparent
21 consumption, virtually, that you see over the POI is gas
22 exchangers. That's their primary customer. It's an
23 enormous part of their sales. They have to serve them first
24 and they have to dedicate their volume first and you see
25 their increases in production and shipment over the POI and

1 that's going to gas exchangers.

2 So, I guess what I'm saying is they've had less
3 volume available for the other segments and to the degree
4 that they may have lost share there, they're saying, well,
5 we can't really sell to you. We don't have the capacity or
6 you know what if you're willing to accept this large price
7 increase, yeah, we'll take that business, but otherwise
8 we're kind of too busy for this. He was told literally that
9 by -- I'm sorry, Mr. Brumbaugh was literally told that that,
10 well, we've put this price increase into place because if we
11 can get it great, but we don't really need this business
12 'cause we're so busy.

13 COMMISSIONER SCHMIDTLEIN: How do we reconcile
14 that with their capacity utilization numbers that in the
15 staff report?

16 MR. DOUGAN: And this is what we've been saying
17 is that the capacity utilization numbers represent the idea
18 that they could produce that if they could add another shift
19 or if they could do this or if they could do that, which
20 might be true.

21 You know they said -- I think there was some
22 discussion, well, they could add another shift in six months
23 or something like that and bring that up-to-speed and get
24 people online and that's fine and that's good. And in the
25 longer term that does represent some responsiveness to

1 demand. But in the moment, in the actual time when you need
2 to get these cylinders, they don't have the capacity. So,
3 the capacity utilization that they're reporting you know
4 when they have to tell someone -- you know they said there's
5 a temporary spike in demand because of the hurricane.
6 You're going to have to wait to get this.

7 If they really had all of the capacity that they
8 claim to have, they would not be telling anybody to wait for
9 cylinders. It would be there. They could make it right
10 away. But then they were saying -- a witness this morning.
11 I don't remember if it was from counsel or from the domestic
12 industry themselves were saying they were producing as fast
13 as they could in response to these natural disasters, but
14 you all are still going to have to wait. That is not
15 consistent with the capacity numbers they report either,
16 right, so.

17 COMMISSIONER SCHMIDTLEIN: Okay. Is it you
18 all's position then that the market share that was lost is
19 entirely due to their supply constraint? That they were
20 unable to supply and that's why they lost market share?

21 MR. DOUGAN: Well, the first thing that I would
22 say is that the market share that they lost was --

23 COMMISSIONER SCHMIDTLEIN: Let's put aside this
24 argument about the controlled imports.

25 MR. DOUGAN: Right, sure.

1 COMMISSIONER SCHMIDTLEIN: Let's just put that
2 aside for one moment, okay?

3 MR. DOUGAN: Let's put that aside.

4 COMMISSIONER SCHMIDTLEIN: Okay.

5 MR. DOUGAN: The market share loss in percentage
6 terms, which I can't say because it's confidential.

7 COMMISSIONER SCHMIDTLEIN: Right.

8 MR. DOUGAN: But it's a very small number.
9 Leaving aside controlled imports, it's a very small number.
10 But the actual increase in domestic industry shipments was
11 way bigger than the increase in subject imports, right? In
12 absolute terms, right, there was just way, way more
13 additional domestic shipments because the market's growing
14 and they captured the vast majority of the increase in
15 apparent consumption and that makes sense when you realize
16 that most of it went to the gas exchangers. So, the loss
17 share in percentage terms is not a displacement or a decline
18 in their volume. It's simply because the imports were
19 growing from a smaller base, but by less of an absolute
20 amount. So, we were talking about -- that's why I'm arguing
21 that the shift in market share, even leaving aside
22 controlled important, is not significant because you had a
23 much larger absolute increase in domestic industry shipments
24 than you did of subject imports and it was targeted at a
25 segment that's obviously important to them. So, I guess

1 that would be my response to that.

2 COMMISSIONER SCHMIDTLEIN: But you don't contest
3 that they lost market share to the subject imports?

4 MR. DOUGAN: Mathematically, as presented in the
5 staff report, that is true.

6 COMMISSIONER SCHMIDTLEIN: Okay. And so, the
7 next question is was it by reason of price? And so that's
8 where my prior question goes to. Is it that, no, they
9 couldn't supply -- it wasn't because of the underselling and
10 the price. It was because they're operating at such a high
11 capacity level that they in that moment, which of course
12 assumes that the increase in demand was all based on these
13 hurricanes and emergency need for this product.

14 MR. DOUGAN: Well, it's not only that the
15 increase in demand was based on hurricanes and demand in the
16 moment, but there was -- the demand increase was driven by
17 the gas exchangers. And so, given that there's evidence
18 that the domestic producers were certainly later towards the
19 POI were running flat out and had to tell people to wait,
20 whether it's because of the hurricanes or anything else.
21 They didn't have lots and lots and lots of available
22 capacity. What they did have they were able to increase
23 their production in shipments by quite a bit. They really
24 did, but that all went to the gas exchangers. And I know
25 you're running out of time, but these gas exchangers have a

1 huge portion of the market and a huge portion of domestic
2 producers' business. And when they say jump these domestic
3 producers say how high. They're not going to tell Amerigas
4 and Blue Rhino to wait, but they might tell the RV guys, who
5 are a tiny, tiny fraction of their business they might say,
6 you know what, you're going to have to wait a few weeks.

7 COMMISSIONER SCHMIDTLEIN: And just to put it
8 into perspective, the RV market is a much smaller portion of
9 the overall market for the steel cylinders than the gas
10 exchangers.

11 MR. DOUGAN: A tiny fraction.

12 COMMISSIONER SCHMIDTLEIN: I mean that's just a
13 small niche part of this market, right?

14 MR. DOUGAN: That's correct.

15 COMMISSIONER SCHMIDTLEIN: Right. And then
16 you're saying as a part of their business it's a small part
17 of their business as well.

18 MR. DOUGAN: That's correct.

19 COMMISSIONER SCHMIDTLEIN: Okay, alright. Well,
20 my time has expired. Thank you.

21 CHAIRMAN JOHANSON: Commissioner Kearns.

22 COMMISSIONER KEARNS: Yes, I'd like to continue
23 right where Commissioner Schmidtlein left off, I guess. I
24 mean I guess I'm seeing consistency from what I'm hearing
25 from you all and what we heard this morning from the

1 Petitioners with respect to RV and distribution. And that's
2 that you know there's underselling, in part, because as they
3 explained it this morning they're kind of left with these
4 spot sales and the situation might be very different if they
5 were able to secure long-term contracts with you know
6 meaningful quantities in their -- and that explains the
7 degree of underselling with respect to RVs.

8 I mean I think that's consistent with what I'm
9 hearing you say and with the point about capacity
10 utilization. I think what they would say is, sure, I mean
11 if you want to put in place a long-term contract where
12 you're going to be buying a lot of material from us, sure,
13 we'll open another shift. But if it's going to be you know
14 little dribs and drabs here and there you know we're not
15 going to like start another shift tomorrow and then shut it
16 down the next day. So, I mean doesn't that kind of square
17 with what you have been saying and wouldn't that kind of
18 explain why there is as much underselling as we're seeing in
19 RV sales.

20 MR. DOUGAN: Thanks, Commissioner. And I'll
21 turn this to the industry guys who can actually speak to the
22 day-to-day events where I'm looking at the data and trying
23 to read the tea leaves, but you know when you -- they're
24 saying that the domestic -- I mean there's obviously some
25 disagreement from the morning panel and the afternoon panel

1 about the degree to which they're soliciting the business of
2 the RV market, right? And I'll let our industry guys who
3 basically are the RV market talk to that, but when you are
4 sort of focused -- when your business is focused on gas
5 exchangers, really, and to somewhat less a degree retailers,
6 everybody else goes to the back of the line. And you know
7 if I can make that spot sale and you know get a really high
8 price for it and in fact increase my price for it, yeah,
9 I'll take it, but I'm not working in that business on a
10 regular basis. I mean you know Mr. Brumbaugh said that they
11 have -- well, he works with one of them, but the other one
12 has never approached him and I think there's some other
13 folks here who can also talk to that.

14 So, it's the question -- there is underselling
15 as a function of the pricing that you see in the data, but
16 is that underselling significant in the sense of what it
17 speaks about the competitive situation? I'm not so sure
18 that that's true because they're deploying their resources
19 and production to their much more -- frankly, their much
20 more important customers and you know the --

21 COMMISSIONER KEARNS: One thing I think I hear
22 you saying is given the size of the gas exchanges --
23 companies and given the growth there that even if you were
24 to sell -- even if you did have long-term contracts with the
25 U.S. producers with for the RV industry would be large

1 quantities, it's still going to be hard to really get them
2 to be committed to -- and they haven't shown -- you're
3 saying they haven't demonstrated any real interest in this
4 much smaller segment of the overall market, right?

5 MR. DOUGAN: I can talk to the relative size of
6 the market. I would invite the industry witnesses to talk
7 about the degree to which they feel like they have been
8 solicited for business by the domestics.

9 MR. BRUMBAUGH: Again, I guess I would go back
10 and reference the part of my testimony of when, from our
11 perspective, Worthington lost a major portion of their share
12 of the market through it. And that was in that time period
13 when steel prices had crashed quite a bit over a fairly
14 short period of time. And when we were bidding that major
15 contract, we did not see that steel drop reflected in the
16 pricing that we received from Worthington.

17 We just pass along what we need for the services
18 that we provide. The customer looked at that very clearly
19 and said they were an outlier. Everyone else who was
20 bidding it for that business, including Manchester, was much
21 lower than the Worthington number. We were in line with the
22 Manchester number, but we were able to retain that business
23 with our import-sourced tank because of our customer service
24 and what we had done for that customer over the preceding
25 years.

1 COMMISSIONER KEARNS: Yeah, you know what I
2 think I heard from Petitioners on that point, the 2015/2016
3 timeframe, you know I think they would say they weren't
4 making profits head over foot -- head over heels at that
5 time either and so they weren't doing particularly well at
6 that time and they couldn't really consider price.

7 MR. DOUGAN: Commissioner Kearns, directly to
8 that point, I would invite you to look at the preliminary
9 staff report and on page C-3, table 3-1, and you can see
10 what happened to the domestic industry profitability between
11 2015 and 2016. They're operating margin and their net
12 margin increased and their operating income and net income
13 also increased in absolute dollars, so they did grow their
14 margins from 2015 to 2016 probably as a result of the fact
15 that they had these enormous declines in their steel costs,
16 not all of which they passed on to their customers. And
17 they were able to kind of get away with that in a lot of
18 instances, but in this case this customer said, hang on a
19 second, your steel costs dropped by 40 percent and you're
20 knocking 1 percent off of my price. Come on, that's
21 insulting. I mean it's not even about a price difference
22 because as Eric was saying everybody else was kind of
23 recognizing that more.

24 I mean this was a statement, as he said, that
25 they felt wasn't interested in having this customer's

1 business any more. I mean they were basically trying to
2 keep all of the benefit that they got from the fact that the
3 steel prices had collapsed and you can see the fact that in
4 their profit margins from '15 to '16 they went up and so
5 they were able to -- now, sometimes they may -- this may not
6 even be a function of "getting away" with anything. This
7 may also be a function of the fact that they have these
8 contracts where there are formulas and things like that where
9 they can adjust the prices, but maybe that's only on an
10 annual basis. And so simply by virtue of that when steel
11 prices drop very quickly, you kind of do get to keep that
12 margin, but when it goes the other way you're kind of stuck.
13 So, they saw the benefit of that in the short term, but they
14 lost some trust from an important customer.

15 COMMISSIONER KEARNS: Anything else from the
16 industry witnesses?

17 MR. CANCELOSI: I want to address your concern.
18 You bought up something that was paraphrasing basically to
19 the fact that maybe the Petitioners' prices weren't any good
20 because they were spot purchases and I just want to let you
21 know that from -- you know who we have represented here
22 today is probably 90 percent of the industry. Forest River
23 40 percent and their RFQ was for 400,000 units. And I
24 remember, Eric, you had mentioned yesterday your RFQ was for
25 how many units?

1 MR. BRUMBAUGH: Yes, in a similar number. Yes.

2 MR. CANCELOSI: So, that's 800,000 units. And
3 you know we've been declining over the past three years just
4 because sort of demand is going down a little bit for us in
5 RV industry and that's more than a year. We've never hit a
6 million cylinders in our business, so for a year contract
7 and that was quoted at seven months lead time. So, you know
8 they wouldn't be able to function with that.

9 And then also I want to address something
10 pertaining specifically to the underselling of the 30-pound
11 cylinder in the RV market. First, I think we need to point
12 out -- and I heard somebody bring this up this morning and
13 said is it basically possible that you're giving them a
14 price which is you know take it or leave it. And if you
15 take it great, and if you don't want it you know is it a
16 feasible price. I mean it has to be a marketable price.

17 And the first thing I want to say is the
18 30-pound cylinder, and I'm not sure if anyone's ever seen it
19 before, but a 30-pound cylinder uses the same head ring,
20 foot ring, basically, the same OPD valve, except there's a
21 little extra piece of plastic on the OPD valve. You know
22 it's basically the same cylinder and the only difference is
23 all the manufacturing cost is the same. There is weld on
24 the foot ring, weld on the head ring, one horizontal weld
25 around the middle and really the only difference in cost is

1 the size of the two shells that are welded together. It's
2 a very minimal cost.

3 And that leads into my second point. I can't go
4 into the retail market and price cylinders the same way that
5 I price it to the RV market because then they'll be
6 underselling me in the opposite items. So, they can't come
7 into this market and expect to do -- or this market segment,
8 excuse me, and expect to do business the same way that they
9 do business in their retail market segment. Things are
10 different. I can make different margins on different
11 things if I had a whole line, but just talking from the
12 three or four things we had, in order for me to compete
13 there they've got to be priced entirely different. I've got
14 to lose money to make money on something else.

15 And in the RV market, the volume of the 30-pound
16 cylinders are substantially higher numbers than they are in
17 the retail industry which is very small. So, I think the
18 data shows the underselling because we're not looking at it
19 in specific market segments and certainly the volume for --
20 if the entire market of the RV industry was a million
21 cylinders and there were 400,000 cylinders in 30-pound tanks
22 that's enough volume that they could run. That's all.
23 Thank you.

24 COMMISSIONER KEARNS: Okay, thank you very much.

25 MR. SIMON: Can I add to that? You know the

1 Petitioners also were in kind of agreement on the same point
2 of why for the buying and pricing and so forth. And our
3 customers are buying for us because of service and we
4 service them -- we do what they ask of us. We can make
5 changes quickly, okay. We had one customer who sat there
6 and said I want the foot ring with two holes in it exactly
7 the same part on each side, so then they can mount it
8 properly their way. The customer wanted it that way. We
9 can do that. We did that for them immediately. I'm not so
10 sure that would happen in the U.S. I mean those unique,
11 those things.

12 And in the RV market, we don't lock them down
13 with contract. You know they place POs with us. And they
14 place a PO and we're showing them what the prices are at all
15 times. Here's what the cost are. We tracked the cost for
16 the last 10 years of copper and everything and we're showing
17 them, hey, this is what's going on and would you like to
18 make a buy. You know this seems like an opportune time.
19 So, they make opportune buys based on the market conditions
20 that we provide to them and the information we give and they
21 can't cancel those POs. And that's the agreement we have
22 with them. They can't cancel them, but there's no contract
23 that says, hey, you have to buy from us. They buy from us
24 because we service them and they continue to be loyal to us
25 and we're loyal to them. I don't have to have a contract

1 with them.

2 COMMISSIONER KEARNS: Okay, thank you very much.
3 Appreciate it.

4 CHAIRMAN JOHANSON: I would like to thank all of
5 you for appearing here today. Petitioners have argued that
6 domestic pricing increases in 2017, in 2018 were not
7 commensurate with increases in the U.S. industry's unit COGs
8 in either year, causing profits to plunge. And this is the
9 Petitioner's brief at page 45. How do you all respond? And
10 why is the cost price squeeze experienced by the domestic
11 industry not attributable to subject imports?

12 MR. DOUGAN: Our response to that is because if
13 you look at the pricing by segment you see that they got
14 much greater price increases in the segments where there's
15 relatively less import penetration or little -- I'm sorry.
16 They got more price increases where there's more subject
17 import presence and lower price increases where there is
18 little subject import, if any presence. And so, in our
19 view, in most cases you'd expect the reverse to be true,
20 right? You'd expect to get more price increases where the
21 subject imports aren't and lower price increases where the
22 subject imports are and it's the exact opposite here.

23 The fact is that most of their business is in
24 the gas exchanger segment where the subject imports don't
25 play to any material degree and those are -- I can't get

1 into the confidential information, but I think some of the
2 information in my slides -- I think Slides 11 through 14
3 talks about that. They're governed by terms of sale to
4 certain segments of the market that restrain the amount to
5 which they can get price increases and that's not
6 attributable to subject import competition because subject
7 imports don't play in those markets.

8 And so what I've said and what's displayed on
9 Slide 15, and this also comes from our brief, which is if
10 the domestic industry got the same price increases across
11 the board that they got in the products where the subject
12 import underselling was concentrated then they would've
13 increased their profits over the POI, but they didn't and
14 they weren't able to get the price increases in the markets
15 where the subject imports are not participating. So, in our
16 view, that breaks the causal link between price effects of
17 subject imports and the profitability of the domestic
18 industry.

19 CHAIRMAN JOHANSON: Thank you, Mr. Dougan.

20 How do you respond to Petitioner's argument that
21 subject import supply has outpaced U.S. demand growth on the
22 record as discussed on page 14 of their brief?

23 MR. DOUGAN: That is true only in terms of
24 percentage changes, so that's why you see arithmetically a
25 shift in market share. But if you look at Slide 1, that's

1 also, in part, because of the domestic producers began at a
2 much higher base. But the absolute increase in domestic
3 industry shipments was a lot bigger than the absolute
4 increase in subject import shipments. And then on the next
5 slide, Slide 2, we point out that because a significant
6 portion of subject imports are controlled by domestic
7 producers if you take that into consideration then the
8 increase in -- then the relative increases in share -- I'm
9 sorry. The relative increases in shipments are much more
10 desperate and you see actually, even without taking into
11 consideration controlled imports, the shift in market share
12 is pretty small in a growing market. And if you take the
13 controlled imports into effect, the market share shift is
14 virtually nil.

15 CHAIRMAN JOHANSON: Thank you.

16 Petitioners point out that subject imports, as a
17 whole, undersold domestic producer prices in 70 percent of
18 possible quarterly comparisons and the quarters in which
19 underselling occurred accounted for 87.3 percent of the
20 total volume of imports from China and Thailand. They
21 further argue that predominant underselling took place in
22 each individual product size tracked and across customer
23 types. And this is all in pages 21 to 22 of their brief.
24 How do you respond?

25 MR. DOUGAN: So, my response to that would be --

1 without getting into confidential information too much, but
2 the underselling is concentrated in the products where the
3 domestic industry has relatively little presence. And where
4 the domestic industry has the focus of most of its sales the
5 subject imports are -- the two products, 2 and 4, where the
6 domestic industry it's -- I wouldn't say it's even the
7 lion's share. It's the vast majority of their pricing
8 products and their U.S. shipments the subject imports are
9 overselling in terms of the number of quarters and the
10 amount of quantity.

11 So, the amount of stuff that's undersold is
12 actually very, very, very small in terms of absolute
13 quantities relative to the domestic industry shipments. So,
14 we would argue that that would not have a material effect.
15 There's also the impact of the fact that you have to take
16 into consideration the pricing behavior of the controlled
17 imports and the fact -- how their prices relate, not only to
18 the domestic industry, but to other subject sources. So,
19 does how does the pricing of the controlled imports compare
20 to the pricing of uncontrolled subject imports. And we
21 would argue that that makes the underselling even less
22 significant. So, you can add up the totals and you get a
23 number that are basically what you read back and that's
24 supported by the staff report. But if you actually look at
25 where it's coming from and where it's concentrated, we would

1 argue that it is not significant.

2 CHAIRMAN JOHANSON: Thank you.

3 Are there any quality issues that are raised on
4 this record insofar as all steel propane cylinders must be
5 produced at the same US DOT specifications? Doesn't this
6 suggest that these products cannot be materially different
7 in terms of size and physical characteristics?

8 MR. DOUGAN: I can let the industry guys chime
9 in, but I think it's more or less understood that, by and
10 large, these products are similar. The talk about physical
11 interchangeability is one thing if they're made to a spec,
12 but there are certain aspects of the different cylinders
13 that might be preferred by one customer base or another.
14 Mr. Cancelosi mentioned how the fact that their cylinders
15 are made from thicker steel might be preferable to an RV
16 manufacturer, but it's kind of a deal killer for a gas
17 exchanger, so in terms of their tolerance and how they meet
18 the spec, they are the same. But there are different
19 characteristics that may advantage or disadvantage them in
20 different pocket segments.

21 And then, also, in terms of pricing being the
22 defining factor if all else is equal, well, all else is not
23 equal when there are availability issue to certain segments.

24 MR. DOUGAN: And I'll invite the other witnesses
25 to speak to that.

1 MR. BRUMBAUGH: This is Eric. From my
2 perspective, Jim answered the question pretty much exactly
3 the way I would have. I mean that's, in a nutshell, these
4 cylinders are very interchangeable, okay. But there's
5 little nuances that each industry likes and therefore, as
6 Jim was saying, if all the other things are the same, and I
7 have an RV customer where the pricing's gonna be similar,
8 he'll probably choose the stouter cylinder because it's
9 gonna perform better in his manufacturing environment.

10 MR. SIMON: This is Rob Simon, it's Worldwide.
11 We had to change some of our, you know, the height --
12 there's differences in heights sometimes with the cylinders.
13 And they're not that big. In the RV business, if there's
14 any space left, they're gonna fill it with something.
15 They're gonna find a way to utilize that space.

16 So we found out that we had to make a couple of
17 changes in order just to make sure that we fit all the RVs.
18 So there are some slight differences that a plant maybe not
19 be able to use, or they have to redesign their RV, that
20 section, so the cylinder will fit into it. I mean, because
21 it's that tight of a space.

22 MR. AKINS: This is Leo Akins with Forest River.
23 Our design criteria for RVs and the way that we produce
24 them, it lends itself to a very particular set of qualities
25 that we look for in the subject vessels. But for the most

1 part, it's considered a critical component that does need to
2 meet all regulatory specs that are put forth between DOT and
3 our own design criteria. And the way that it melds with our
4 production is what makes the difference to us. Of course,
5 price is important, but there's other factors that go into
6 play.

7 CHAIRMAN JOHANSON: All right. Thank you for
8 your answers. Commissioner Williamson.

9 COMMISSIONER WILLIAMSON: Thank you. Just to
10 clarify. What is the RV segment? Is it just the OEMs? Or
11 are there distributors that specialize in selling to RV
12 OEMs? Are there retail outlets that specialize in selling
13 accessories for RVs? And is the customer base in the RV
14 segment as concentrated as, say, gas exchangers? I'm just
15 trying to get a better understanding when we talk about the
16 RV segment and what we're talking about.

17 MR. BRUMBAUGH: This is Eric from UFP
18 Distribution. Generally speaking, to go to the second
19 point, there are not a lot of major manufacturers. We just,
20 as we mentioned, Forest River represents close to 40% of the
21 market. Thor industries represents close to 50% of the
22 market. So, between those two, they're fairly dominant
23 players.

24 To my knowledge, I've never heard of a reference
25 where a retail customer was trying to sell into that

1 industry, it's very finite, it's very close-knit. I can
2 address it in the post-hearing brief, the exact number of
3 competitors we run up against, but it's a very small number
4 that seem to have the bulk of the share in the marketplace.

5 COMMISSIONER WILLIAMSON: Okay. Are there
6 distributors that sell to the RV --

7 MR. BRUMBAUGH: In essence, I'm a distributor, so
8 I am selling to the RV industry, yes. There's at least two
9 other distributors that sell the product to the RV industry,
10 actually at a third now that are doing that. And that's the
11 bulk of the folks that we would compete against.

12 COMMISSIONER WILLIAMSON: Okay.

13 MR. DOUGAN: Commissioner Williamson, yeah, one
14 -- in the purchaser questionnaires, respondent purchasers
15 were asked to define what type of firm they were, and one of
16 the choices is distributor to RV manufacturers and the other
17 is, you know, is RV manufacturer. So we can provide a
18 compilation of those numbers for you for the post-hearing if
19 you'd like.

20 COMMISSIONER WILLIAMSON: Okay, okay, thank you.
21 You argued that the domestic industry has few business
22 arrangements with RV customers. Now, we look at our product
23 specifically, I'm referring to you, Mr. Dougan, pricing
24 data, in particular, Tables V-3 and V-8, don't these two
25 tables suggest pretty significant overlap in these sectors?

1 And don't these two tables suggest a significant
2 competition? And I don't know if you wanna do it
3 post-hearing since we're looking at --

4 MR. DOUGAN: I can certainly do more
5 post-hearing. I think Mr. Brumbaugh -- he sells both
6 domestic and imported cylinders to the RV market. There is
7 a presence. They're not absent from it, but they have
8 clearly put it in what the data tells me and I think, what
9 we hear from the industry witnesses, from the domestic
10 industry perspective, it goes at the back of the line after
11 the gas exchangers and the retailers.

12 COMMISSIONER WILLIAMSON: But in terms of firms
13 selling to this segment, you do have something of a domestic
14 presence?

15 MR. DOUGAN: There is a domestic presence, yes,
16 that's correct. But it's not a priority for the domestic
17 industry.

18 COMMISSIONER WILLIAMSON: Okay. No, but I got
19 this question about the competition between the imports and
20 the domestic product in that segment.

21 MR. DOUGAN: They do sell to that segment, that
22 is correct.

23 COMMISSIONER WILLIAMSON: Okay, thanks. The
24 record indicates that the domestic industry has an advantage
25 in lead times. The Commission found this to be true in its

1 preliminary determination. And the record in these final
2 phases support that finding at staff report 2-14. Do you
3 still argue that subject imports have an advantage in lead
4 times?

5 MR. DOUGAN: Jim Dougan, Commissioner Williamson.
6 I wasn't involved in the preliminary phase, so I'm not gonna
7 speak to the arguments one way or another there. But my
8 understanding of how I read the record is that yes, it,
9 generally speaking, takes less time to get a cylinder from a
10 domestic manufacturer than it does from an importer, that
11 makes sense, right? One's coming from --

12 COMMISSIONER WILLIAMSON: Yeah.

13 MR. DOUGAN: -- the U.S., one's coming from, you
14 know, Thailand and China. The issue that I understand--it's
15 in the staff report and it's in the purchaser responses
16 is--there has been a variability in lead time among the
17 domestic producers. There's been extensions of lead times
18 among the domestic producers. And I think from the
19 perspective of some purchasers in some segments, not all,
20 some purchasers in some segments, there's been a lack of
21 reliability from the domestic producers.

22 So I think that is, to the degree that that may
23 have caused some purchasers, some customer segments, to look
24 elsewhere, because they felt that they weren't getting that
25 kind of on-time service that they'd been promised, that

1 would be something that would lead to them to want to buy
2 less domestic product. You're not hearing that from the gas
3 exchangers, right? I mean they're not shipping late, as far
4 as we know, to AmeriGas and Blue Rhino, because they just
5 couldn't do that.

6 COMMISSIONER WILLIAMSON: Okay.

7 MR. DOUGAN: But I think smaller folks --

8 COMMISSIONER WILLIAMSON: Okay, I got your point.
9 Thank you. Someone else --

10 MR. DOUGAN: Industry witnesses can --

11 MR. SIMON: I'd like to add something to that if
12 I could. The retailers, if you'll look at lead times and
13 stuff, what I'm finding out, what I'm hearing from
14 customers, okay, like, we've gotten calls from retailers
15 such as a couple of retailers -- there's a number of retailers
16 ,that we're getting calls from, and they're saying, "We
17 couldn't get last year on 4th of July cylinders from our
18 domestic manufacturer. Highest time that we sell cylinders
19 is 4th of July. And my shelves were empty. I don't care
20 about your price, just get me product." "I can't get
21 product Rob, can you please get me product?" And they
22 bought product from us.

23 Because lead times were so long. The lead times
24 that have been quoted for Forest River, I've seen, and the
25 lead times that have been quoted to other people and to the

1 RV industries are that they have felt them seen, you know,
2 and I think Eric could add to this, is longer. Longer lead
3 times. I mean there are long lead times now. They're not
4 seven and ten days. Years ago, they used to be that way.
5 But they're not now. And so, on occasion, we're actually
6 shorter lead times than they are.

7 COMMISSIONER WILLIAMSON: And you attribute those
8 longer lead times to what?

9 MR. SIMON: Because they're not paying -- they
10 can't service the market. They can't service all the
11 capacity.

12 COMMISSIONER WILLIAMSON: Okay, thank you.
13 Petitioners say that the price is not the most important
14 thing. But most purchasers rate the domestic like product
15 as comparable on almost all factors. And the majority of
16 all market participants rate subject imports and domestic
17 like product is always interchangeable. You see, you know,
18 Tables 2-9, 2-10. Does this suggest that most competition
19 is on the basis of price? Given that everything else seems
20 to be comparable?

21 MR. DOUGAN: Well, there --

22 COMMISSIONER WILLIAMSON: Other than the lead
23 time and some of the things you all were talking about.

24 MR. DOUGAN: Sure, sure. Well, and we address
25 this in our pre-hearing brief on Pages --

1 COMMISSIONER WILLIAMSON: Okay.

2 MR. DOUGAN: I'll get there.

3 COMMISSIONER WILLIAMSON: You can just remind me
4 post-hearing.

5 MR. DOUGAN: Yeah, it's in the staff report.

6 COMMISSIONER WILLIAMSON: Okay.

7 MR. DOUGAN: But there are, among the responding
8 purchasers and, of the factors that they all deemed to be
9 very important, you know, availability and reliability of
10 supply. And there are a few who rate the U.S. as inferior
11 on those characteristics.

12 COMMISSIONER WILLIAMSON: Okay.

13 MR. DOUGAN: But we'll say more post-hearing.

14 COMMISSIONER WILLIAMSON: The Commission gathered
15 pricing data differently in this final phase investigation
16 with a separate break-out for RV manufacturers, gas
17 exchangers, distributors and retailers. Petitioners say the
18 final phased pricing data are more accurate. Do you agree
19 with the petitioners that the final phase data are more
20 accurate? And if not, why not?

21 MR. DOUGAN: Commissioner Williamson, Jim Dougan.
22 Again, I didn't work at the prelim, so I'm not as intimately
23 familiar with those details, but I think that the way that
24 they're broken out for the final phase is pretty helpful.
25 Because it's, as I understand in the preliminary phase, it

1 was just the distinction between 20- and 30-pounds, right?
2 And here you've got it by segment. And we think that that's
3 actually quite valuable in helping us and you understand the
4 competitive dynamics. So we'd agree it's a better data set.

5 COMMISSIONER WILLIAMSON: Okay, thank you. What
6 should the Commission do with the direct import purchase
7 costs they gathered? I asked this question this morning,
8 too.

9 MR. DOUGAN: Sorry, could you repeat the
10 question, please?

11 COMMISSIONER WILLIAMSON: What should the
12 Commission do with the direct import purchase costs they've
13 gathered?

14 MR. DOUGAN: Jim Dougan from ECS again. You
15 know, we haven't put a lot of, had a lot of discussion or
16 analysis of that. Petitioners, obviously, don't like it.
17 Because, even though it said pretty much the same thing in
18 the prelim and the final, they just decide it can't be right
19 because it doesn't fit their case. They said the same thing
20 about the retailer pricing data. So any data that doesn't
21 fit their theory of the case must be wrong or flawed in some
22 way.

23 COMMISSIONER WILLIAMSON: It goes both ways, but
24 go ahead.

25 MR. DOUGAN: Fair enough. But we think that it's

1 another factor that you could -- I wouldn't put, you know,
2 tremendous amount of weight on it, but it is another factor
3 that you can consider because of the channel into which it's
4 sold. When petitioners this morning were sort of putting a
5 lot of weight on how price effects transmit across segments
6 and how price pressure at the retailer from subject imports
7 transmits to the gas exchanger. And we think that this is
8 other evidence you have on the record that shows that's not
9 so. But you don't need that. Because the other pricing
10 data you have shows the same thing.

11 COMMISSIONER WILLIAMSON: Okay, thank you. My
12 time is expired.

13 CHAIRMAN JOHANSON: Commissioner Schmidtlein?

14 COMMISSIONER SCHMIDTLEIN: Let me just -- that
15 was gonna be my question. So you do not agree with that
16 testimony this morning. And would you mind just repeating
17 what you were trying to explain to Commissioner Williamson?

18 MR. DOUGAN: Sure, Jim Dougan. We don't, we
19 don't have independent knowledge of the company responding
20 to that questionnaire and the way in which they provided it
21 that would lead us to invalidate it. I think we note that
22 it -- I understand it to be the same as what they reported
23 at the prelim. I think that staff has done an exemplary job
24 in gathering the record and putting this data together, and
25 if there issues with -- they could've ferreted out issues

1 with the information if it was incorrectly reported or
2 inconsistent in some way.

3 We don't think that you necessarily have to put a
4 lot of weight on it, but we do think it's another factor to
5 consider. You know, when petitioners are telling you that
6 price effects, price competition, on-shelf prices at the
7 retailer are transmitted to gas exchangers, even though gas
8 exchangers are, like, 90% of the market or whatever, or half
9 the market. Anyway, they're a big part of the domestic
10 producers' sales. Somehow, the retailer segment transmits
11 prices to them.

12 Well, as I pointed out in my testimony, imports
13 oversell in 20-pound cylinders to retailers, right? That's
14 just in the pricing data you have, so you don't even need
15 the purchase cost data, but the purchase cost data, again,
16 are other factors that tend to invalidate their theory of
17 the case. So you don't have to put a great deal of weight
18 on it. We don't have reasons to invalidate it. We think
19 it's another piece of data in favor, or rather, undermining
20 their theory of the case.

21 COMMISSIONER SCHMIDTLEIN: Okay. So you don't
22 think there's any connection between the price being charged
23 inside the store and the price being charged outside the
24 store by the gas exchanger? Given that it's the exact same
25 product essentially.

1 MR. DOUGAN: Well, I'm sorry, Jim Dougan from
2 ECS.

3 COMMISSIONER SCHMIDTLEIN: Not the price to the
4 customer, not the price to the consumer, but the price
5 they're paying for the cylinder.

6 MR. DOUGAN: The price that the consumer is
7 paying for the cylinder?

8 COMMISSIONER SCHMIDTLEIN: No, that the store is
9 paying versus the gas exchanger.

10 MR. DOUGAN: You know, I can't speak to that, I
11 don't know for sure. But they are different channels, and
12 the Commission -- there's different pricing to the different
13 channels and when you see higher pricing and import
14 overselling in one channel, the fact that that's somehow
15 causing transmitting price effects to a channel that, by the
16 way, is much larger, much larger.

17 And that the price effects would -- I would think
18 that the price effects would tend to go the other direction,
19 not the direction that they're claiming that it goes, right?
20 Because, I mean, the largest segment of the market is a
21 price taker? That doesn't seem to be right. It seems to me
22 they're the ones dictating the prices. It's a much -- I
23 mean they have this sort of, very complicated theory of how
24 the market works.

25 But I think it's a lot simpler than that. You've

1 got two enormous gas exchangers who account for the huge
2 share of apparent consumption, a huge chunk of domestic
3 producers' shipments, and they play the two of them off each
4 other to get a better price. You don't have to be
5 transmitting price effects from the RV market, which is -- I
6 mean, you know, which is -- or even retailers, let alone RV,
7 my God.

8 But I mean, you know, it's pretty obvious how the
9 price effects work here, and I mean it's a simple
10 explanation. When you've got the purchasing power
11 concentrated for so much of the market in very few,
12 basically two purchasers, who by the way, don't buy from
13 subject imports. So you kind of have to come up with this
14 elaborate theory as to how that could be otherwise. But the
15 simplest explanation, I think, is the best one.

16 COMMISSIONER SCHMIDTLEIN: Okay. I had a
17 question about the price suppression argument that you all
18 make, which if I understand it, relates to this provision
19 called the "most favored customer" provision, right? So I
20 just wanna make sure I understand the extent of the
21 argument. And, so is that correct?

22 The position of the respondents is that domestic
23 industry couldn't raise prices, they were in a cost-price
24 squeeze, they couldn't pass that along, but it wasn't
25 because of subject imports, it was because of this provision

1 that they have in their contracts with certain purchasers.

2 MR. DOUGAN: That's correct. I've been cautious
3 about getting any more specific than that --

4 COMMISSIONER SCHMIDTLEIN: Right.

5 MR. DOUGAN: -- but that's correct.

6 COMMISSIONER SCHMIDTLEIN: Okay.

7 MR. DOUGAN: And those are not with customers to
8 whom subject imports sell.

9 COMMISSIONER SCHMIDTLEIN: Okay. So one question
10 I had with regard to that, since these are customers just in
11 one of the segments, and--granted, I know it's the biggest
12 segment--but how we, you know, are we to extrapolate from
13 that, that they couldn't raise prices more in the other
14 segments? You know, given that this only applies to this
15 one segment and it's only what we have in evidence is just
16 for one of them, right? It's hard to talk about it with
17 this --

18 MR. DOUGAN: It's very hard to talk about this, I
19 know, I know. I'm happy to sort of say more about it at
20 length in post-hearing. This is obviously --

21 COMMISSIONER SCHMIDTLEIN: Okay.

22 MR. DOUGAN: -- a very important issue for us,
23 but what I can say --

24 COMMISSIONER SCHMIDTLEIN: Yeah.

25 MR. DOUGAN: -- is that the way that we've tried

1 to capture that, is to try to understand what impact that
2 had on the market is, is captured at Slide something or
3 other, Slide 15, which is basically saying, okay, the
4 underselling and the subject import presence is relatively
5 more concentrated outside of, say, Product 2 and 4, right?

6 And so if you took the growth in average unit
7 value for all the other segments, where the subject imports
8 are and their underselling, and you applied that to their
9 sales as a whole, what would happen to the domestic
10 industries' profitability? And the answer is on Slide 15.

11 And so it obviously, the impact of their
12 inability to pass through price increases and raw material
13 increases to their very powerful customers has, as you might
14 expect, an outsized effect on their financial performance.
15 So, that's kind of my short answer to that, that I can say
16 publicly.

17 COMMISSIONER SCHMIDTLEIN: Okay.

18 MR. SIMON: Can I say something to that effect?

19 COMMISSIONER SCHMIDTLEIN: Sure.

20 MR. SIMON: This is Rob Simon with Worldwide.
21 Customers will tell you, you know, when you're increasing
22 the price, they're gonna say, "Hey, I'm gonna go out and
23 chop you." You know, it does scare you, especially with
24 that kind of volume. So I can understand that. But they're
25 gonna go out and try to chop you. We get chopped in the RV

1 market. We get chopped, you know, by our customers
2 sometimes. That's fine. Let 'em do it.

3 COMMISSIONER SCHMIDTLEIN: Well, I mean, okay.
4 That sounds relatively consistent with what they were saying
5 this morning though, right? That they had learned their
6 lesson. They raised prices in the other segments, they lost
7 share, so they didn't wanna take that chance with their
8 biggest customers.

9 MR. SIMON: If they did, we would've gotten an
10 RFQ. Nobody, I don't know, they didn't go out and chop. I
11 think it was a negotiation tactic, that's all.

12 COMMISSIONER SCHMIDTLEIN: Okay.

13 MR. DOUGAN: Commissioner Schmidtlein. I think
14 the way to answer that, and the way that we tried to address
15 that in these slides without me being able to talk about it,
16 is that for the segment of the market to which this
17 supplies, and the way that the language in contract is
18 written, it's very specific about to whom it applies or
19 under what circumstances it would apply.

20 And subject imports don't play a role there and
21 they don't qualify, and for the reasons that you've heard
22 from Mr. Cancelosi about their -- I mean, you know, they
23 tried to sell into the gas exchangers. One of them said,
24 "We're only interested in domestic product." And the other
25 one tried to qualify them, couldn't, didn't even take the

1 whole order because they didn't like it, and haven't given
2 them an opportunity to quote again for three years.

3 So I get the idea that, yes, you've got these
4 large powerful customers and the subject imports are just
5 waiting to jump in at any moment. But if I'm AmeriGas and
6 Blue Rhino and I really wanna leverage subject import
7 pricing, why wouldn't I buy subject imports a little bit,
8 just a little bit over the POI and apart from, and if you
9 look at Slide 14, you can see the instances in which they
10 actually, the gas exchangers, there's actual subject import
11 sales of Product 2, which is 20-pound cylinders to gas
12 exchangers, right?

13 So the blue square, and it might not be blue,
14 because the paper's pink. But the blue square tells you
15 literally all of the quarters in which there was a sale by
16 subject imports to a gas exchanger. And I think it's quite
17 telling when those were few and far between to begin with,
18 which is also reflected in the market share data, right?
19 And I think it's interesting, both the timing of them, the
20 size of them, and the identity of the importing party.
21 That's all I will say about that.

22 COMMISSIONER SCHMIDTLEIN: Okay. We'll follow up
23 with some post-hearing questions in writing so that we can
24 be more specific in addressing this topic. Thank you.

25 CHAIRMAN JOHANSON: Commissioner Kearns?

1 COMMISSIONER KEARNS: Thank you. I wanted to
2 start with kind of getting back to general principles
3 question about what market segmentation means and what sort
4 of attenuated competition is. I guess in my experience, the
5 segmentation arguments are strongest when there's a good
6 reason that subject imports are not able to penetrate all
7 supposed segments of the market. In other words, there's a
8 reason why U.S. producers are insulated from competition
9 from subject imports.

10 So, for example, long time ago, I was in your
11 shoes, I guess, Mr. Menegaz or Mr. Dougan, and we
12 represented Chinese ball-bearing manufacturers. And it was
13 pretty clear that, at least back then, because of quality
14 reasons and also Buy America reasons, that's why Chinese
15 manufacturer ball-bearings are used to make roller blades
16 and U.S. ball-bearings are used to make missiles. So they
17 just weren't gonna be able to penetrate into these other
18 segments is the point.

19 But is there anything here? I mean, and I think
20 this might be going to -- I was a little surprised, Mr.
21 Rosenthal this morning seemed to not even accept the idea
22 that there are these segments. But, you know, it seems to
23 me that when you're talking about a 20-pound tank and, I
24 think, Mr., I think it was Mr. Cancelosi before was
25 suggesting, now the difference between a 20-pound tank and a

1 30-pound tank is pretty minor.

2 And if all you're doing in finding these
3 different segments is really just identifying different
4 customers, you know, maybe we're making too much of these
5 different segments. Yes, it's always gonna be hard to steal
6 someone's Number 1 Customer, Number 2 Customer, you know,
7 top five customers. There's gonna be more of a desire to
8 fend that off. But, you know, is this real market
9 segmentation? I mean, why are U.S. producers insulated from
10 competition in the overall cylinder market?

11 MR. DOUGAN: Jim Dougan from ECS. I'll take a
12 shot at that. And, you know, I don't think I ever said
13 they're completely insulated from competition. There's
14 clearly been instances in the past where they've had
15 customers and lost them. And sometimes, you know, not
16 because of the price, but because of other reasons -- where
17 the customer felt disrespected or something like that.

18 I think in certain segments, there are--even if
19 it's not physical characteristics--there are sort of terms
20 of sale and things like that that lend to different
21 competitive dynamics and frameworks. And part of it was
22 discussed by Mr. Cancelosi with the type of product that
23 seems to be desired by the gas exchanger segment, you know,
24 for large purchasers, I'm actually kind of surprised that
25 they haven't -- I mean if the world were, as petitioners

1 would tell you -- I'm kind of surprised that the gas
2 exchangers, because they're arguably price sensitive, that
3 they wouldn't go out and basically try to get more subject
4 import supply.

5 And there's evidence that they, over the POI, had
6 at least tried to qualify it, they had sort of dipped their
7 toe into it, but not to any significant degree. I mean not
8 even, I mean a scratch on the surface compared to the size
9 of the market. So I find that, you know, is there an
10 insulation to competition that arises from the physical
11 characteristics of the product? Probably not. It's not,
12 you know, missiles versus, you know, rollerblades, right?
13 But there's something going on there that leads them to
14 prefer the domestic product.

15 There's also some of those that are witnesses
16 have talked about the difficulty in meeting the terms or the
17 arrangements to the retail market. And mostly doesn't even
18 have to do with price, right? It was about the terms of
19 sale, right? And about the frequency with the quickness
20 with which they get paid. And I think you mentioned the
21 predictability of the business, where the RV manufacturers
22 were able to say, "I'm gonna make this many units. Six
23 months from now, I'm gonna make this many units. Nine
24 months from now, this is what I need."

25 And there's an understanding of the raw materials

1 that play in the marketplace. That is helpful to them,
2 whereas the retailers segment is, I guess, more cloudy,
3 right? If you could talk to that a little bit, Brad?

4 MR. CANCELOSI: Sure, yes, the retail market is
5 much different than the RV market. As I mentioned in my
6 testimony, we work based off commitments from Eric and his
7 counterpart at our other distributor that issues us purchase
8 orders. So we know what we're working with in advance in
9 the retail market. We can't plan our production with the
10 limited space that we have based on, you know, only a 90-day
11 visibility scale. We really need four to six months, which
12 is our distributors place orders about six months at a time.

13 COMMISSIONER KEARNS: Okay. Thank you. I'm
14 gonna turn back to the slide that you were referring to with
15 Commission Schmidtlein on Page 14. And also, by the way,
16 just more generally, I thought that slide and the following
17 slide on Page 15 were very interesting. I hope the
18 petitioners will respond to it post-hearing and maybe in
19 their closing. I'm guessing what we hear from the
20 petitioners with respect to Slide 14, I think they would
21 probably argue that large purchasers are able to obtain
22 price reductions, but that all of the product pricing is
23 suppressed due to subject imports.

24 I would think that they would probably just say,
25 "Yeah, just move that whole thing, you know, upwards and

1 that's what it would look like if we weren't facing
2 competition from subject imports," and it affects all these
3 markets. Any comment on that? I mean, in other words, it
4 shouldn't surprise us that where we see the largest volume
5 of sales, we also see the lowest prices.

6 MR. DOUGAN: I think that--Jim Dougan from ECS--I
7 mean I think that makes some sense that large volume markets
8 would tend to, all else being equal, have lower prices. But
9 especially when the purchasing is concentrated so heavily
10 between a couple of purchasers who can play the domestic
11 producers off of one another, I'm sure that has something to
12 do with it.

13 But the argument that, "Yeah, well, it's all
14 lower just because subject imports are here, and take our
15 word for it." I mean the Commission has to be able to find
16 evidence of a causal link between the presence of subject
17 imports and their behavior, and what's actually observed in
18 the data over the POI. It's not enough for petitioners to
19 just say, "Yeah, all of these would just be a lot better if
20 the subject imports just weren't here."

21 COMMISSIONER KEARNS: Right.

22 MR. DOUGAN: And I think --

23 COMMISSIONER KEARNS: But then I think -- if I
24 can just jump in. I think what they would say is, you know,
25 then--and this is where I'd like you to respond now and also

1 post-hearing, you know, response to their Slides 24 through
2 26. Where I think they would say, "No-no-no, look at each
3 individual segment. If you look at each individual segment,
4 if we can call it that, then you will see that where there
5 is underselling, we lost market share, and where we did
6 match pricing, we maintained market share, but the pricing
7 remained low." How would you respond to that?

8 MR. DOUGAN: My response to that would be, and I
9 tried to fit this into response to Commissioner Schmidlein
10 before, maybe it didn't fit very well. But I think that
11 this comes to -- it's a little bit the other way around, I
12 think. Because if you view this market as, and the domestic
13 producers' business as primarily focused on serving the gas
14 exchangers, who are their largest market, biggest customers,
15 not even close, right? You've seen Slide 10, right? You've
16 heard of the chart earlier. No one else even close.

17 And that's where all the demand is. And so
18 you've got a domestic industry with, you know, they claim to
19 have available capacity, but I think some of the evidence
20 that's on the record from purchasers and otherwise would
21 suggest that they don't have as much as they claimed. They
22 haven't shorted the gas exchangers. They haven't told them
23 they have to wait. And they've increased their shipments to
24 them by an awful lot, right? Most of the increase in demand
25 has been to gas exchangers.

1 So it's, everyone else kind of goes to the back
2 of the line, and if you are seeing a decline in domestic
3 industry shipments to those other segments, in our view,
4 that's just a redirection of those shipments to the much
5 less important customers to the gas exchangers. They're not
6 gonna tell Blue Rhino no. They're not gonna tell AmeriGas
7 no.

8 COMMISSIONER KEARNS: Okay. Thank you. I would
9 get one more question before my time expires. If, as you
10 argued, the domestic industry is focused on the retailer
11 segment, in addition to gas exchanger segment of course.
12 But retail segment, and why do subject imports share of that
13 segment increase over the POI?

14 MR. DOUGAN: Commissioner Kearns, Jim Dougan. I
15 can talk to that a little bit. And some of that has to do
16 with some of the subject imports there. In fact, the not
17 insignificant part of it is controlled subject imports. But
18 I can try to address that more in post-hearing.

19 COMMISSIONER KEARNS: Okay, great. Thank you.
20 My time's up.

21 CHAIRMAN JOHANSON: To that extent, does a
22 concentration of customers in certain parts of the market
23 impact competition in the U.S. market for steel propane
24 cylinders?

25 MR. DOUGAN: Jim Dougan again, Chairman

1 Johanson, sorry, can you repeat that question?

2 CHAIRMAN JOHANSON: Yeah, to what extent does a
3 concentration of customers in certain parts of the market
4 impact competition in the U.S. for steel propane cylinders?

5 MR. DOUGAN: I think the concentration of
6 customers in the largest segment of the market has a lot to
7 do -- well, it certainly affects the condition of the
8 domestic industry and how it affects competition in the rest
9 of the market is if you have a couple of very large
10 customers who dominate both consumption and the shipments of
11 domestic producers, they're going to go to the front of the
12 line in terms of who gets the volume.

13 And to the degree that there's competition in
14 other segments, the degree -- and by the way, in those
15 segments, from the gas exchanger segments, there's no
16 subject import competition -- virtually no subject import
17 competition.

18 The available supply with which the domestic
19 producers have to serve the other segments of the market
20 would be of secondary importance to them to serving their
21 primary market and so, they have to focus on them first and
22 then sort it out with everybody else.

23 Also, the highly concentrated nature of the
24 customer base allows the -- and the fact that they're
25 essentially only buying from domestic suppliers, allows

1 those concentrated purchasers to have a lot of power in the
2 marketplace in general, but also in playing the domestic
3 producers off of one another to obtain price concessions.
4 That's, so we'd argue that that's how it affects it.

5 CHAIRMAN JOHANSON: Okay, thank you Mr. Dougan.
6 I have just one more question. Petitioner's presentation
7 this morning included confidential slides 24 to 27, that
8 they claim showed lessons learned from price competition
9 with subject imports at RV producers, distributors and
10 retailers.

11 Could you all please comment on and respond to
12 these slides in your post-hearing brief?

13 MR. DOUGAN: Chairman Johanson, Jim Dougan of
14 ECS, we will absolutely do so, thank you.

15 CHAIRMAN JOHANSON: Thank you Mr. Dougan, that
16 concludes my questions. Commissioner Williamson?

17 MR. BRUMBAUGH: Could I -- this is Eric from the
18 UFP Distribution, I'm sorry to interrupt.

19 CHAIRMAN JOHANSON: Certainly.

20 MR. BRUMBAUGH: Could I just add one additional
21 comment tonight. And respect the fact I'm not an economist,
22 and this is the first time I've obviously sat in front of a
23 Commission like this, but when I hear that the terminology
24 of the underselling in the RV segment that was alleged, and
25 I haven't obviously ever seen these graphs and charts that

1 we're talking about.

2 But it makes me go back to that significant event
3 in our history when the option for the customer was to
4 choose Worthington or other option, or the other competitors
5 that were bidding at that time. Worthington, as you recall,
6 their prices dropped very little even though the steel
7 market had dropped considerably.

8 We were faced with -- we had our pricing from our
9 import supplier which was very much in line with the other
10 two bidders at the time. One was another import supplier,
11 and one was Manchester.

12 Had Manchester won that business at that point in
13 time, they were -- we were basically, per the customer's
14 information, courting similar amounts, and the only reason
15 we got it was our service levels. Had Manchester gotten
16 that would they have been underselling into the RV industry
17 at that point?

18 That's -- it's something again, I'm a novice
19 here, so I'm just curious. That that simple event has kind
20 of rippled through this whole scenario then. I mean they
21 had just as likely a chance of winning that contract as we
22 did because the pricing was the same. I'll just leave it at
23 that.

24 COMMISSIONER WILLIAMSON: Yeah, it was on my
25 time, no, they started me over, so that's okay, thank you

1 for that comment. If the Petitioners want to respond to
2 that, they can later. Just a few quick questions and if you
3 want to answer them post-hearing that's fine, given the
4 hour.

5 Okay, the Respondents stated that -- you've
6 stated that the reasons given by the domestic producers for
7 importing were unpersuasive -- this is in my pre-hearing
8 brief at 17. And I was just wondering, can you expand now
9 or later on that answer as seriously all that persuasive,
10 but this is something that you may want to do post-hearing.

11 MR. DOUGAN: So, you're saying us saying it's
12 unpersuasive, you want persuasive, okay?

13 COMMISSIONER WILLIAMSON: Right, exactly, so you
14 want to.

15 MR. DOUGAN: Fair enough. Okay, we'll try to
16 make it more persuasive.

17 COMMISSIONER WILLIAMSON: Okay, thank you. Okay,
18 I'm sorry, you're now at page 56 of the domestic energy's
19 financial performance worsened in 2018 when there was a
20 modest decline in subject import market share.

21 What about the domestic industry's financial
22 performance in 2017 and does that not suggest that causal
23 link?

24 MR. DOUGAN: Commissioner Williamson, Jim Dougan
25 again, we'll get into this more in post-hearing because it's

1 going to involve confidential information.

2 COMMISSIONER WILLIAMSON: Sure, that's fine.

3 MR. DOUGAN: Okay, I'll stop. No, I was just
4 going to say I think that the decline was more severe '17 to
5 '18 going to the raw materials, but some of the same thing
6 was going on a little bit from '16 to '17 and the same
7 contractual constraints applied then as they did in '18.

8 You saw more severe decline in '18 because steel
9 prices went up more dramatically, but you also had the
10 increase from '16 to '17 and their inability to pass on
11 those price increases was for the same reason across the
12 POI, so we're not limiting our analysis in slides 11 to 14
13 to 2018, that's when it was the most traumatic.

14 COMMISSIONER WILLIAMSON: Are you talking about
15 the annual contract?

16 MR. DOUGAN: Correct, right, yeah.

17 COMMISSIONER WILLIAMSON: Okay.

18 MR. DOUGAN: Yep, so.

19 COMMISSIONER WILLIAMSON: Thank you.

20 MR. DOUGAN: More in post-hearing.

21 COMMISSIONER WILLIAMSON: Great, thank you.

22 You've argued that importers are necessary because the
23 industry cannot meet demand. And we're often reminded by
24 domestic producers that there's no rule saying that they
25 have to be able to supply the entire U.S. market.

1 So, even if there is a need for imports, can
2 imports still harm the domestic industry by taking market
3 share of lowering market prices?

4 MR. DOUGAN: Jim Dougan again, we've argued that
5 the -- and you know, it's understood that they're not going
6 to be able to serve the whole market. We've argued that in
7 fact, if you look at the data, that you know, the absolute
8 volume of domestic shipments went up by a lot, right?

9 COMMISSIONER WILLIAMSON: Yeah.

10 MR. DOUGAN: There wasn't a displacement. It was
11 a small shift in market share. And our argument about the
12 price side is that they weren't -- didn't, prices certainly
13 didn't go down, prices went up across the POI, so there was
14 no price depression.

15 And they went up by more where the subject
16 imports were playing and were underselling, so that's our
17 argument as to why just their sort of sheer presence in the
18 marketplace does not cause injury.

19 COMMISSIONER WILLIAMSON: Okay, think about that
20 further, okay. On page 69 and 71, that the domestic
21 industry was able to raise prices more on specific products
22 in channels than in others, so what happened to the volume
23 of domestic shipments, particularly relative to subject
24 imports in the channels where the domestic industry was able
25 to get larger price increases?

1 And if you want to do that post-hearing you can.

2 MR. DOUGAN: I would definitely do that
3 post-hearing. I think it's parallel to Chairman Johanson's
4 question about Mr. Rosenthal's slides 24 to 27, or whatever,
5 so those are the same. I think they're the same concept, so
6 we'll talk about that.

7 COMMISSIONER WILLIAMSON: Okay, good, and I'm
8 looking forward to Commissioner Schmidtlein's post-hearing
9 questions about slide 14 and 15, particularly 15, you know,
10 I'm having trouble with that one. But anyway, no further
11 questions. I want to thank all the witnesses for their
12 testimony.

13 CHAIRMAN JOHANSON: Commissioner Schmidtlein?

14 COMMISSIONER SCHMIDTLEIN: I don't have anything.

15 CHAIRMAN JOHANSON: Commissioner Kearns?

16 COMMISSIONER KEARNS: A few more. Let's see, I
17 guess I wanted to start with price suppression and contract
18 inflexibility. You know, this morning what we heard from
19 Petitioners I think, as I see it at least, two things. One
20 is you know, the contracts aren't so inflexible that some of
21 them are annual, but many of them aren't, and then even the
22 annual ones, some of them are -- there's flexibility in the
23 price during the term of the contract.

24 But then the other argument is the prices were
25 suppressed or even depressed over the entire POI and so the

1 annual contracts don't account for that. Any responses to
2 what we heard this morning?

3 MR. DOUGAN: Commissioner Kearns, Jim Dougan. I
4 think there's certainly no evidence of price depression on
5 the record, prices increased, right -- that's inarguable.

6 COMMISSIONER KEARNS: Just, you know, in the
7 briefs I think they had argued that if you look at the
8 preliminary determination, so 2015, you know, from that
9 point you saw it, just so you know.

10 MR. DOUGAN: Yeah, and then I think that part of
11 the -- I mean I think that's part of -- that's a function of
12 what happened with steel prices too, as I mentioned earlier,
13 right, and they were able to increase their margins between
14 '15 and '16, so I don't think that's price suppression, if
15 they can grow their margins, certainly not.

16 So, and then from '16 to '18 prices increased, so
17 that's my answer to that part of it. In terms of the
18 inflexibility of the contracts, again this is complicated to
19 get into, but they put these contracts on the record and at
20 least one of them with a large customer had -- I would
21 consider it to be extraordinary inflexible prices, i.e. more
22 or less fixed for a long period of time.

23 And so, and that's in the staff report too where
24 it talks about how, on some of these contracts they very
25 often are. You heard a lot about variability and the

1 ability to hedge this stuff and all these things from the
2 panel this morning, but I'm not sure the record as a whole
3 really supports that.

4 So, we can get into that more in post-hearing
5 because I don't want to get anywhere near anything
6 proprietary.

7 COMMISSIONER KEARNS: Okay, fair enough, thank
8 you. And this question is for Mr. Brumbaugh. Did U.S.
9 producers attempt to increase prices in 2017 and 2018? And
10 if so, how did you respond to those attempts?

11 MR. BRUMBAUGH: During -- this is Eric, from UFP
12 Distribution. During the calendar year 2017, our domestic
13 supplier did not change pricing. It had remained the same.
14 In fact, it was very close to the pricing it had been in
15 late 2014. We saw this -- the small decrease that I had
16 mentioned around the end of 2015, but then that pricing
17 stayed stable until 2018.

18 COMMISSIONER KEARNS: Okay. Has the pendency of
19 these investigations affected the volume or price of subject
20 imports?

21 MR. DOUGAN: Jim Dougan from ECS, because these
22 folks don't have access to the confidential data, I think
23 with respect to China, it's a little tough to unpack what's
24 attributable to the pendency of these investigations than
25 what's attributable to the 301 and the sort of anxiety, as

1 Mr. Cancelosi says about the 301, but there certainly has
2 been a big drop-off.

3 I will note that it -- that's about as far as I'm
4 going to say because the rest of it is proprietary.

5 MR. BRUMBAUGH: This is Eric from UFP
6 Distribution. The only thing I can add is what I know, and
7 that's the pricing that I would have been receiving. I can
8 add that our prices on import cylinders did go up during the
9 2017 time period and it logically makes sense because after
10 the low steel prices that were seen in that 2015-2016 time
11 period, as those prices went up, our costs went up from our
12 import supplier. It was very logical and for the most part
13 in lock step with the movement of that market -- the steel
14 market.

15 COMMISSIONER KEARNS: Okay, thank you. And then
16 my last question, and I'm hoping that the Petitioners can
17 respond to this as well. This comes from staff, but I
18 thought it was a good one to end on. Food trucks -- we
19 haven't really talked about this too much, but they've
20 really been expanding in urban areas.

21 Many of them use propane cylinders to cook their
22 food. What effect have you seen on the market from the food
23 trucks, if any at all?

24 MR. DOUGAN: This is Jim Dougan, we'll try to
25 answer that. These folks sell to the RV market, so I don't

1 --

2 COMMISSIONER KEARNS: Right.

3 MR. DOUGAN: They may not know.

4 COMMISSIONER KEARNS: Fair enough.

5 MR. DOUGAN: We'll see if we can find something
6 out for you.

7 COMMISSIONER KEARNS: Okay, good, thank you. I
8 have no further questions.

9 CHAIRMAN JOHANSON: Do any other Commissioners
10 have questions? No Commissioners have questions. Do staff
11 have any questions for this panel?

12 MR. THOMSEN: Craig Thomsen, from the Office of
13 Investigations, my microphone's not working, but we have no
14 further questions.

15 CHAIRMAN JOHANSON: Okay. Staff have no further
16 questions, do Petitioners have any questions for this panel?

17 MR. ROSENTHAL: No, we don't.

18 CHAIRMAN JOHANSON: Okay, then this panel is
19 dismissed. You all may prepare for your -- the rebuttals
20 and closings. I will note that Petitioners have 14 minutes
21 of direct, 5 minutes of closing for a total of 19 minutes.
22 And Respondents have 12 minutes of direct, 5 minutes of
23 closing for a total of 17 minutes. Thank you all again for
24 being here today.

25 MR. BURCH: Closing and rebuttal remarks on

1 behalf of Petitioners will be given by Paul C. Rosenthal and
2 R. Alan Luberda of Kelley, Drye & Warren. Mr. Rosenthal
3 and Mr. Luberda, you have 19 minutes.

4 CLOSING REMARKS BY ALAN LUBERDA

5 MR. LUBERDA: Thank you very much. I'll start
6 and Paul will finish up with some specific points. I heard
7 Mr. Cancelosi state that his company -- his particular
8 Chinese supplier had some problems being competitive with
9 certain U.S. customers. And he represented his company as
10 basically being representative of the entire Chinese
11 industry when in fact, his company imports from one Chinese
12 company.

13 And some of the Chinese industry chose not to
14 participate in this final. For example, TPA responded in
15 the prelim, but not in the final. They had significant
16 production and there's no evidence otherwise that they could
17 not supply this market and would not be interested in
18 continuing supply of the market but for the case.

19 By discounting TPA's and other Chinese producers
20 who are unaccounted for here today, Mr. Cancelosi's claim
21 that they're not important unfairly rewards their lack of
22 participation. I might also point out that you didn't hear
23 anything from the Tai's today, they decided not to show up
24 at all and answer any of the same questions that you've been
25 able to pose to the Chinese.

1 Looking at the overall case, and volume, I don't
2 think there's any way other than to describe the volume of
3 the subject imports as significant and increasing over the
4 period. There was no abandonment of any part of the market
5 by the domestic industry. We attempted to participate.
6 Domestic producers -- you should not accept this sort of
7 blithe statements that we neglected to market.

8 I think, as Mr. Rosenthal will go more into, it
9 wasn't neglective of the market, we were more forced out of
10 parts of the market after trying very hard to remain
11 relevant in those markets but couldn't compete on the basis
12 of price.

13 On the price side, there's no disputing that
14 there's underselling, significant underselling throughout
15 the record here. There's underselling by product, there's
16 underselling overall, and in each segment that they called
17 segments, but each customer type, there's significant
18 underselling.

19 And the question is -- did that underselling
20 matter? And if you ask the purchasers as we showed on slide
21 14, which was taken from the purchaser's questions as to you
22 know, did -- was price lower than the domestics? And if so,
23 did you purchase the import? And did you do that primarily
24 because of the lower price?

25 And so, if you look at our slide 14, pretty

1 significant basis. The purchasers all said price did
2 matter, and you heard from the witness, Mr. Brumbaugh today,
3 that in fact price mattered a lot to him in dealing with
4 whether he would choose Worthington over -- or his customer
5 would choose Worthington over the lower-priced imports.

6 So, yes, price really mattered. And that would
7 get to both the price argument that where price, volume and
8 impact all meet, and those are Mr. Rosenthal's favorite
9 slides -- slides 24 through 27, and as we heard the
10 Commission you know, discuss with us and with the
11 Respondents this afternoon, whether retailer -- in every
12 section in which the domestic industry attempted to raise
13 prices, we lost the market share.

14 And so, if you look at product 4, the one in our
15 slides 24 and 25, you see the places where the foreign
16 producers really dominated the market. They did it with
17 price. They undersold very heavily, 90% in one set of
18 customers and 100% for the RV customers.

19 When we get to the price underselling at the
20 retailers and that's product 4, 4 and 7, but I want you
21 particularly to look at product 4. So, we have price
22 underselling there of only 35%, 65% overselling. This is a
23 very significant group of customers for both the domestic
24 industry and for the subject imports.

25 And look how low the prices are for the imports

1 in product 4 and look how low the underselling and
2 overselling margins are between the two. This was an area
3 of -- these were customers where there was a real dog fight
4 between the domestic industry and the foreign producers and
5 the importers -- a real dog fight.

6 So, what lesson were we supposed to take -- was
7 the domestic industry supposed to take from what happened?
8 If we raise our prices, we lose market share. We didn't
9 abandon the market, we got pushed out on the basis of price.
10 They then, and there was testimony at the preliminary staff
11 conference, they said well we started selling to, after we
12 got firm in the market with the RV folks, we started selling
13 to the retailers.

14 And when we started selling to the retailers, you
15 see what the result of that is. The domestic industry said
16 we see what's coming here. So, they fought to keep that
17 share, but look how low those price -- they look at compared
18 to what they sell to the RV folks. There's a real serious
19 effort to get that market share. Now, you go transfer that
20 to the gas exchangers.

21 I think it's very important to point, you know,
22 those gas exchange cylinders, they're sitting right outside
23 the same places that the new cylinders are being sold at
24 retail at the big box and the club stores. They're right in
25 the same location for the same folks to look at, that there

1 would be no relationship here would be the surprise, not
2 that there's a relationship.

3 The idea that the gas exchangers wouldn't know
4 that information when their market share depends on the
5 relationship between those prices would be very surprising
6 and we think not believable that they wouldn't know that.

7 So, if they know the retail prices -- we also
8 know that they do reach out and get quotes. You heard some
9 of that here today, and when you look in the staff report,
10 the instances in which the subject imports actually
11 competed, they tended to undersell in that market as well.

12 So, if you're the domestic producers, you know
13 what's coming in that market share. There is no structural
14 impediment to those foreign products which are very
15 interchangeable. There's no structural impediment to them
16 getting into that market.

17 And the domestic industry, having every day,
18 emptied their wallets to the foreign producers who were
19 taking market share from them, if you saw that guy come up
20 to you every day and he demanded the money in your wallet,
21 and then suddenly he noticed you have a car outside too, and
22 there's car keys in your pocket, you're not going to want to
23 give up that, what's left to you.

24 And these guys were not about to have that, so
25 these are important customers. They do have big market

1 share, and they did everything possible to prevent foreign
2 producers. So, yes, they have low prices, and I think the
3 very last discussion from the Commission with the
4 Respondents, to Commissioner Kearns as the overall price
5 levels in the market are down, these are substitutable
6 products.

7 One 20-pound cylinder is the same as another, so
8 in the end they did what was reasonable. They had to keep
9 prices low, and what's important to them right now is to get
10 relief in this case, so that they have the ability to raise
11 prices overall again to something that is at least
12 sustainable, and I'll turn the rest over to Mr. Rosenthal.

13 CLOSING REMARKS BY PAUL C. ROSENTHAL

14 MR. ROSENTHAL: Thank you. I should if you want
15 to go ahead and put up that slide. I don't know if you
16 remember this movie called "Lost in America." There weren't
17 very many slides I could find that included RV. Another
18 alternative was using one from Dumb and Dumber, but I didn't
19 want a comparison drawn to Mr. Luberda and me at this point.

20 This happens to be a movie about a couple who
21 sells their investments, he actually quits his job and they
22 decide to drive across the country in an RV. The spouse in
23 this instance happens to take their investments and loses
24 all their money in Las Vegas, their so-called nest egg, and
25 I'll come back to that.

1 The -- when I think of Lost in America, I think
2 of the industries that the U.S. has lost, and you heard
3 about the barbeque grill industry. We don't want to be
4 another one of those industries that is no longer able to
5 produce in the United States.

6 And what struck me a little bit is some of the
7 cavalier approach to the profitability of this industry by
8 the Respondent's presentation today. They are acting as if
9 the profits from this industry were somehow robust and
10 sustainable over a period of time.

11 And that we somehow should have had our profits
12 drop even more dramatically as steel prices have dropped in
13 2016 as suggested by Respondent's witnesses. Well, you saw
14 where we were in 2016. Those were abysmal, not sustainable,
15 and they've gotten worse.

16 I'll come back to that before we close. But,
17 instead of relying on the actual data in the record, Mr.
18 Dougan does in his proforma, what he does in a number of
19 other exercises in their pre-hearing brief, he postulates
20 facts that don't exist instead of considering the actual
21 sales values, the pricing that took place in products to
22 enforce his wall, if you take those out and you just rely on
23 the sales increases and these others, you'd see the
24 industry would have been much more profitable.

25 Well, I want to be -- we'll leave the economic

1 analysis to the economists later, but that's like saying
2 well, if a bullfrog had wings, he wouldn't bump his rear end
3 so much. Well, in this case we don't have those prices that
4 would allow the profits to be as high as Mr. Dougan's
5 proforma postulates.

6 In fact, they were as low as they were in the
7 record for a reason because the domestic industry could not
8 increase their prices to these big customers -- the
9 retailers and the gas exchangers. So, I know Mr. Kearns
10 would like to have more information on that and we'll do a
11 more sophisticated analysis than referring to bullfrogs in
12 our post-conference brief, but I was struck by yes, you can
13 make up a lot of stuff if you just accept all of my
14 assumptions on things.

15 Mr. Dougan also makes an assumption that the gas
16 exchangers and the retailers have no idea what their
17 respective prices are and that they don't know what import
18 prices are being offered to either one of them -- that
19 really does not pass the laugh test. Of course, they know,
20 just for the same reasons that all the domestic witnesses
21 testified to before, and the idea that you actually have to
22 go out and sample the imports.

23 You have to buy imports to know what prices are
24 being offered, it doesn't make sense. But, in fact, Mr.
25 Dougan, who postulated that, was sitting next to Mr.

1 Cancelosi and he said well, his company did go out, did
2 supply imports to the gas exchangers for a while.

3 It wasn't simply a hypothetical -- gas exchangers
4 have bought imports. They know what the prices are for
5 imports. By the way, every one of the witnesses, and I
6 appreciate the candor of the witnesses in this afternoon
7 panel. Every one of them acknowledged the importance of
8 price -- every one of them, and we'll get more explicit
9 about that in our post-hearing brief.

10 But, Mr. Brumbaugh, was very, very clear. They
11 were buying from Worthington, and we have a quote from
12 Worthington in our brief about this. They were buying from
13 Worthington, confirmed by Mr. Brumbaugh, and he and others
14 in the RV industry were upset that Worthington didn't drop
15 its prices by more when steel prices dropped in late '15.

16 And you see what the profitability was in 2016,
17 and you'll understand why Worthington wasn't willing to do
18 it. But he acknowledged it was all about price. There's no
19 discussion of lead times when that happened. No discussion
20 of some differences in quality of product or whether they
21 fit in the RV's which are all, in my view, make way
22 arguments, those are all about price and acknowledged and it
23 was acknowledged elsewhere by the Respondent's that yes,
24 they still buy from the domestic industry, contrary to what
25 they said in the pre-hearing brief, and contrary to what the

1 impression they give.

2 The domestic industry is still selling to the RV
3 industry consistently. I'm trying to look for the exact
4 quotes here, but he acknowledged that the domestic industry,
5 in fact, didn't raise prices until 2018, they kept their
6 prices consistent, just as our witnesses had told you,
7 because they were trying to not lose additional market
8 share.

9 So, the problem was that they didn't drop the
10 prices in 2015 and 2016, as the RV industry had wanted them
11 to do, and as Mr. Luberda said, the industry did not walk
12 away from the RV customers, the RV customers walked away
13 from them.

14 And I said well you're gap is too high as
15 compared to the imports and we're not going to entertain
16 your proposals except for the occasional spot sales where we
17 can get it on a timely basis from our import sources, and
18 that is exactly what you saw from the data Commissioner
19 Schmidtlein, and Commissioner Kearns both asked about that
20 and why there's that difference.

21 And they -- Respondent's confirmed that. And by
22 the way, contrary to what you heard about the domestic
23 producers not calling on the RV industry, you heard that
24 testimony contradicted today. You heard Mr. Brumbaugh say
25 that Worthington has been working with them, and has been

1 for the last 18 months, and prior to that too, but it's all
2 about price.

3 So, one or two closing points -- by the way in
4 terms of lead times, we're talking about un-forecasted lead
5 times. When somebody comes to you and hasn't got a contract
6 in place, the lead times nowadays, as inventories attempt to
7 get built up again, can be as much as 8 to 9 weeks, but that
8 is actually less time than the average import lead times
9 which was acknowledged as 75 days.

10 So, one of the key things here, and this goes
11 back to one of the questions of the Commissioners. If you
12 want to have this supply available on a shorter time period,
13 if you make a commitment to do so, the industry will add the
14 shifts, will produce more volumes in a shorter period of
15 time, but they have to have that commitment that they will
16 get those sales at a reasonable price.

17 They're not going to put on overtime because
18 somebody comes to them for a short-term sale and is not
19 willing to commit and allow the domestic producers to plan.
20 There's plenty of capacity and supply in an orderly fashion,
21 but it can't come just when a hurricane hits or when
22 inventory is running down.

23 So, in virtually every one of the arguments that
24 the domestic -- sorry, that the Respondent's made previously
25 concerning availability and price and segmentation -- market

1 segmentation, yes Commissioner Kearns, you totally
2 understood my argument, there isn't these impervious
3 segments. There's nothing inherent about these products or
4 the customers that prevents the one producer or another from
5 selling to the other customer base.

6 There's no basis for a market segmentation
7 analysis here. It is all about price, and I'm happy to say
8 that the Respondent's witnesses all confirmed that. We urge
9 you, because we want to stay in the U.S., Mr. Bowes talked
10 about a 10-million-dollar availability of additional
11 commitment to Worthington, and I'm hoping that an
12 affirmative decision will be issued here to allow
13 Worthington to make that investment and to confirm the
14 pledge by Mr. Page, to stop importing from Thailand and to
15 continue to invest in the United States.

16 This record justifies an affirmative
17 determination and we urge the Commission to make that soon,
18 thank you.

19 MR. BURCH: In rebuttal and closing remarks on
20 behalf of Respondents will be given by Gregory S. Menegaz of
21 DeKieffer & Horgan. Mr. Menegaz, you have 17 minutes.

22 MR. MENEGAZ: Given the economic nature of the
23 closing, I've invited my colleague, Jim Dougan, up to begin
24 our rebuttal.

25 CLOSING REMARKS BY JAMES. P. DOUGAN

1 MR. DOUGAN: Good afternoon. It's been a long
2 day. I'm not going to say much. You've heard me talk all
3 afternoon and you're probably sick of it, so just a few
4 points that I want to make in response to Petitioner's
5 closing.

6 One, Mr. Luberta spent a decent amount of time
7 emphasizing the importance of Product 4 and how that was a
8 dog fight between the domestic industry and subject imports.

9 Unfortunately, I had inadvertently left out one
10 of the slides of my presentation. I'll be sure to put it in
11 post-hearing, but in Product 4 the imports from China were
12 overselling -- was mostly overselling. Imports from China
13 were overselling and the underselling by Thailand was
14 largely by controlled imports, so when you look at the
15 uncontrolled imports, they were pretty much overselling in
16 most of the instances in this product. So, if it's a dog
17 fight, it's an intra-industry dog fight. It's got nothing
18 to do with subject imports.

19 Just to correct some statements from Mr.
20 Rosenthal. He attributed some statements to me that weren't
21 correct, but I think it's helpful for me to point how
22 they're incorrect. I didn't say that the industry profits
23 were robust and somehow should've been lower. I was saying
24 that the reason that they went down wasn't attributable to
25 subject imports. And I think you guys understand this --

1 the Commission understand this, but the relevance of the
2 pro forma analysis is not to assume facts not in evidence,
3 but rather to understand the significance of the contractual
4 constrictions in the market segments where the subject
5 imports have very little presence. That's the most
6 important part.

7 And then the argument that Mr. Rosenthal
8 attributed to me that gas exchangers wouldn't know what the
9 retail prices were I said I didn't know, didn't have
10 independent knowledge about whether they would know the
11 retail prices. I guess it makes sense that they would know.
12 But what I did say in response to that topic was I find it
13 very interesting and kind of hard to believe that an
14 industry segment that accounts for more than half of
15 apparent consumption would be the price taker. The segment
16 of the industry that accounts for more than half of apparent
17 consumption would somehow be receiving prices from market
18 participants who account for less than 20 percent of
19 apparent consumption. So, to me, economically, that doesn't
20 make sense.

21 So, that's all I have to say on that. I will
22 now turn it to Mr. Menegaz for our closing. Thank you for
23 your time.

24 CLOSING REMARKS BY GREGORY S. MENEGAZ

25 MR. MENEGAZ: Thank you. I also will be brief

1 in my comments. The final conclusion from our co-counsel on
2 the other side indicated that there were no structural
3 impediments between the segments, but I don't think that's
4 what you heard from Mr. Cancelosi. In fact, he said there
5 were some aspects of their cylinders that were favored by
6 the RV industry and less favored by the largest part of this
7 industry, the gas exchangers. So, those are two completely
8 different segments with different properties associated with
9 the cylinders and they were rejected from the gas exchanger
10 market and told not to even compete, essentially, by one
11 and rejected by the other. And so, we see almost no import
12 presence in that market and that's the big market driving
13 the Petitioners' profitability. And all we've suggested is
14 that the Commissioner should start from the common sense
15 perspective of who are the big players in the market and
16 what is going on with their pricing and their relationships
17 with who is supplying them.

18 And instead, it seems like the Petitioners in
19 this case, and particularly, in the prehearing brief and at
20 this hearing have chosen mainly to beat up on the RV
21 industry because imports have a larger share there and we
22 just don't think that's a plausible theory of the case. We
23 think, based on the confidential data, our theory of the
24 case is much more plausible and as a result there's no
25 causal link between the subject imports and material injury

1 or threat of material injury. And with that, I'll close my
2 presentation. Thank you.

3 CHAIRMAN JOHANSON: Alright, I'd like to thank
4 you all for being here today. I will now make the closing
5 statement. Post-hearing briefs, statements responsive to
6 questions and requests of the Commission and corrections to
7 the staff report -- and corrections to the transcript must
8 be filed by June 18, 2019. Closing of the record and final
9 release of data to parties occurs on July 10, 2019. And
10 final comments are due on July 12, 2019. With that, this
11 hearing is adjourned.

12 (Whereupon, the hearing was concluded at 4:12
13 p.m.)

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CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Steel Propane Cylinders from China and Thailand

INVESTIGATION NOS.: 701-TA-607 and 731-TA-1417-1419

HEARING DATE: 6-5-19

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

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: 6-5-19

SIGNED: Mark A. Jagan

Signature of the Contractor or the
Authorized Contractor's Representative

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

SIGNED: Duane Rice
Proofreader

I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.

SIGNED: Larry Flowers
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