

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
CARBON STEEL BUTT-WELD PIPE) Investigation Nos.:
FITTINGS FROM BRAZIL, CHINA,) 731-TA-308-310, 520, and 521
JAPAN, TAIWAN, AND THAILAND) (Second Review)

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Wednesday,
 September 7, 2005

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

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

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

STEPHEN KOPLAN, CHAIRMAN (presiding)
 DEANNA TANNER OKUN, VICE CHAIRMAN
 JENNIFER A. HILLMAN, COMMISSIONER
 CHARLOTTE R. LANE, COMMISSIONER
 DANIEL R. PEARSON, COMMISSIONER

APPEARANCES (continued):

Staff:

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WILLIAM R. BISHOP, HEARINGS AND MEETINGS

COORDINATOR

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CHRISTOPHER CASSISE, INVESTIGATOR

NORMAN VAN TOAI, INDUSTRY ANALYST

ROBERT HUGHES, ECONOMIST

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JUNE BROWN, ATTORNEY

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APPEARANCES (continued):

In Support of the Continuation of the Antidumping Duty Orders:On behalf of Trinity Industries, Inc.:

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CHRIS FORBIS, Executive Vice President,
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Of Counsel:

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On behalf of Weldbend Corp.:

JAMES J. COULAS, JR., President, Weldbend

Of Counsel:

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KENNETH BERGER, President, Mills Iron

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P R O C E E D I N G S

(9:30 a.m.)

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2
3 VICE CHAIRMAN OKUN: Good morning. On
4 behalf of the United States International Trade
5 Commission, I welcome you to this hearing on
6 Investigation Nos. 731-TA-308-310, 520, and 521
7 (Second Review) involving Carbon Steel Butt-Weld Pipe
8 Fittings from Brazil, China, Japan, Taiwan, and
9 Thailand.

10 The purpose of these second five-year review
11 investigations is to determine whether revocation of
12 the antidumping duty orders covering carbon steel
13 butt-weld pipe fittings from Brazil, China, Japan,
14 Taiwan, and Thailand would be likely to lead to
15 continuation or recurrence of material injury to an
16 industry in the United States within a reasonably
17 foreseeable time.

18 Notice of investigation for this hearing,
19 list of witnesses, and transcript order forms are
20 available at the secretary's desk.

21 I understand the parties are aware of the
22 time allocations. Any questions regarding the time
23 allocations should be directed to the secretary. As
24 all written material will be entered in full into the
25 record, it need not be read to us at this time. The

1 parties are reminded to give any prepared testimony to
2 the secretary. Do not place testimony directly on the
3 public distribution table.

4 All witnesses must be sworn in by the
5 secretary before presenting testimony.

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

10 Madam Secretary, are there any preliminary
11 matters?

12 MS. ABBOTT: No, Madam Chairman.

13 VICE CHAIRMAN OKUN: Very well. Let us
14 proceed with the opening remarks.

15 MS. ABBOTT: Opening remarks in support of
16 continuation of orders will be by John B. Totaro,
17 Schmeltzer, Aptaker & Shepard.

18 VICE CHAIRMAN OKUN: Welcome, Mr. Totaro.

19 OPENING REMARKS BY JOHN B. TOTARO

20 MR. TOTARO: Good morning, Madam Vice
21 Chairman and members of the Commission. My name is
22 John Totaro, and I'm with the Schmeltzer, Aptaker &
23 Shepard, Harris, Ellsworth & Levin International Trade
24 Group. I'm appearing today on behalf of Trinity
25 Industries, a domestic producer of carbon steel butt-

1 weld pipe fittings, a product that I will refer to as
2 "fittings."

3 Trinity and the other members of the
4 domestic industry before you today will underscore the
5 importance of maintaining the five antidumping orders
6 on fittings from Brazil, China, Japan, Taiwan, and
7 Thailand.

8 The Commission determined to conduct full
9 reviews of these orders despite the lack of input from
10 any Respondent interested party because of "the age of
11 the orders in question and in order to examine in
12 detail the conditions of competition in the market."
13 As the domestic industry will discuss, despite their
14 age, the five fittings orders remain an important
15 regulating influence in the United States market.

16 The domestic producers are confident that if
17 the orders are revoked, significant volumes of
18 unfairly traded imports from the five countries will
19 resume. Their concerns are well founded, based on
20 several factors, including: (1) the rapid rise in
21 imports from the subject countries in the years
22 preceding the imposition of the orders and the current
23 low levels of subject imports; (2) the attractiveness
24 of the U.S. market; (3) the continued operation and
25 export orientation of the fittings industries in the

1 subject countries; and (4) the existence of
2 antidumping orders in Europe and Mexico that force
3 some subject suppliers to seek alternative markets.

4 The U.S. purchasers that responded to the
5 Commission's questionnaire share the domestic
6 producers' expectations, namely that if the orders are
7 revoked, the volume of subject imports will increase,
8 and purchasers will buy more subject imports and fewer
9 domestic fittings.

10 Subject imports are likely to regain market
11 share by resuming the underselling that the Commission
12 documented during the original investigations. The
13 Department of Commerce determined earlier this summer
14 that dumping is likely to recur if the orders are
15 revoked, which suggests that underselling is likely to
16 recur as well.

17 These low-priced imports would exert a
18 depressing or suppressing effect on domestic prices.
19 The domestic industry is now particularly sensitive to
20 such price effects, given the high cost of their raw
21 material, which is not expected to decline any time
22 soon, and the overriding importance of price to
23 purchasers. The result of such underselling would be
24 sales lost to subject imports and sinking
25 profitability. These, in turn, could jeopardize the

1 future of the domestic industry.

2 The industry's vulnerability to material
3 injury if the orders are revoked is evident from its
4 performance over the past six years. For example,
5 despite the fact that overall consumption increased by
6 15 percent, comparing 2004 and 1999, domestic market
7 share was 6 percent lower in 2004. Domestic sales
8 volumes were relatively stagnant over the period but
9 were lower in recent years. Financial performance was
10 generally weak.

11 In 2004, domestic producers were able to
12 increase their fittings prices as raw material prices
13 rose, and their financial results improved somewhat,
14 but the anomalous factors that influenced this
15 improvement and the low volume of sales reported in
16 2005 indicate that this upswing in financial
17 performance will be short lived.

18 From the industry's perspective, the five
19 fittings orders have been effective. They have
20 significantly reduced the volume of dumped imports
21 from these countries and alleviated the injury
22 attributable to these imports. Nonetheless, the
23 growth in nonsubject imports has made the industry
24 vulnerable to additional imports from the subject
25 countries. It would be hard to imagine a worse time

1 to revoke the orders and expose the industry to the
2 wave of subject imports that will surely result. The
3 testimony that you will hear today will underscore
4 that assessment.

5 The information before you indicates that
6 material injury is likely to continue or recur within
7 a reasonably foreseeable time. On that basis, we urge
8 the Commission to make an affirmative determination
9 and continue the five fittings orders. Thank you.

10 VICE CHAIRMAN OKUN: Thank you.

11 Madam Secretary, have all of the witnesses
12 been sworn?

13 MS. ABBOTT: Yes, Madam Chairman.

14 VICE CHAIRMAN OKUN: Please announce our
15 first panel, our only panel.

16 MS. ABBOTT: Our only panel is in support of
17 the continuation of antidumping duty orders. All
18 witnesses have been sworn.

19 VICE CHAIRMAN OKUN: You may proceed.

20 MR. TOTARO: For the record, my name is John
21 Totaro. I'm with the Schmeltzer, Aptaker & Shepard,
22 Harris, Ellsworth, and Levin International Trade
23 Group. Also with me is Cheryl Ellsworth, another
24 attorney with our firm, and together we represent
25 Trinity Industries, Inc., a domestic producer of

1 carbon steel butt-weld pipe fittings.

2 I would also like to introduce two Trinity
3 officials who traveled here this morning from Dallas,
4 Texas, to present testimony today: to my right, Don
5 Graham, who is the president of Trinity Fittings
6 Group, Inc.; and down at the end of the table, Chris
7 Forbis, who is the executive vice president of Trinity
8 Fittings Group, Inc. Don Graham will begin our
9 panel's testimony.

10 MR. GRAHAM: My name is Don Graham. I'm the
11 president of Trinity Fittings Group, Inc. Trinity is
12 a manufacturer of carbon steel butt-weld pipe
13 fittings, which I will refer to as "weld fittings" or
14 "fittings." Trinity has manufactured weld fittings in
15 the United States for three decades, selling under the
16 Hackney, Ladish, and Flo-Bend names. Our current
17 production facilities are located in Russellville,
18 Arkansas, and Enid, Oklahoma.

19 Only a few years ago, Trinity manufactured
20 fittings for four plants; however, we closed two of
21 these facilities as a part of a major consolidation of
22 our fittings operations. The consolidation project
23 included relocating the manufacturing equipment from
24 the plants we closed to the two remaining plants.
25 Even though we operated at reduced capacity while the

1 move was underway, our capacity today is the same as
2 it was before the consolidation. While I cannot go
3 into the specifics of the cost of the project in this
4 public forum, Trinity's questionnaire response
5 provides this information, as well as the effect of
6 our consolidation on Trinity's production capacity and
7 production volumes during the period the Commission is
8 reviewing.

9 While we knew that this consolidation would
10 be expensive, we determined that it was necessary in
11 the light of the competitive conditions we were facing
12 in the market for the weld fittings. Specifically,
13 Trinity has fought to reduce costs and increase
14 efficiencies in an effort to remain competitive with
15 low-priced, imported weld fittings. At the same time,
16 Trinity has relied on the antidumping laws to assure
17 that imports from several key suppliers are fairly
18 traded.

19 Trinity, through Ladish and Hackney, was a
20 petitioner in the antidumping investigations that
21 resulted in the orders that are now under review.
22 These orders have been extremely beneficial to
23 Trinity. Their effect may have been most noticeable
24 in the period immediately after the orders were
25 imposed when covered imports were reduced to a

1 trickle. Nevertheless, Trinity continues to benefit
2 from the regulation of the subject imports that the
3 orders provide.

4 By the late 1990's, the U.S. market was once
5 again flooded by cheaply priced, imported fittings
6 from suppliers not covered by the dumping orders.
7 Trinity decided the best way to position itself to
8 compete with these imports for the long term was to
9 restructure its operations. By consolidating
10 production and distribution, we made Trinity's
11 operations more efficient and economical. Our
12 objective was to lower Trinity's cost basis, improve
13 customer service, increase capacity utilization, and
14 target improvements in our manufacturing equipment.

15 Trinity was in a position to launch this
16 lengthy and expensive process in part because the
17 antidumping orders had reduced imports of weld
18 fittings from Brazil, China, Japan, Taiwan, and
19 Thailand to a fraction of the pre-order volumes.
20 Trinity's restructuring was completed in late 2003.
21 While it was not the magic bullet we might have hoped
22 for, we are encouraged by the efficiencies and
23 economies that have resulted.

24 Import competition has certainly not let up,
25 and the effects of these imports are made worse by the

1 fact that the U.S. consumers are more willing than
2 ever to buy imported fittings. We will continue to
3 compete with the import weld fittings on a daily
4 basis. We rely on the buffer created by the
5 antidumping orders to put us in a more secure position
6 than we would be otherwise. Trinity is confident that
7 if the five dumping orders on weld fittings were
8 revoked, imports from these countries that are now
9 subject to orders would quickly increase and have a
10 devastating effect on U.S. producers.

11 We remember well how quickly those imports
12 increased in the years before the orders were imposed.
13 For example, after the orders on Brazil, Japan, and
14 Taiwan went into effect, waves of imports from China
15 and Thailand arrived in the United States. In fact,
16 China alone was shipping 30 million pounds annually in
17 the years before the next round of orders curtailed
18 much of that supply.

19 These days, we compete against huge volumes
20 of imports from countries like Mexico and Malaysia.
21 We have no reason to believe that foreign producers
22 whose exports to the United States are now restricted
23 by dumping orders would not jump at the chance to
24 return to the U.S. market. We are confident that we
25 would lose sales to those imported weld fittings if

1 the orders were revoked.

2 When end users are deciding whether to
3 purchase domestic or imported weld fittings, they
4 consider several factors. First is finding fittings
5 that will serve their needs at the lowest price.
6 Also, most customers want assurances that the fittings
7 have been manufactured consistent with the applicable
8 technical standards. Both domestic and imported weld
9 fittings meet these standards.

10 After the basic quality requirements are
11 satisfied, for most projects that require weld
12 fittings 14 inches and under, it will not matter to
13 most end users whether domestic imported fittings are
14 supplied. The central concern for these buyers is
15 price. Only a small proportion of customers give
16 weight to the approved lists of major U.S. end users
17 in the oil and gas industry. Moreover, many foreign
18 fittings manufacturers appear on these lists.

19 As a result, price, rather than whether the
20 fitting is domestic or imported, remains the most
21 important factor. Our customers are major fittings
22 distributors and stock both domestic and imported weld
23 fittings. We know from contacts with these
24 distributors that many of their end user customers ask
25 for low-priced fittings. Where the distributor stocks

1 the requested size of fittings in inventory from both
2 domestic and imported sources, it is almost guaranteed
3 that the imported fittings will be priced below
4 domestic fittings. Domestic producers may have an
5 advantage in situations where fittings must be
6 produced to order on a tight schedule, but where we
7 compete head to head with imported fittings, the
8 imported product, as a rule, will undercut us on
9 price, and we will certainly lose the sale on that
10 basis.

11 It is simply a reality that our customers
12 are increasingly inclined to purchase cheaper imported
13 fittings. We expect the supply of low-priced fittings
14 available in the market to multiply if the orders on
15 weld fittings are revoked, which would mean a greater
16 likelihood that imported fittings would take sales and
17 customers from Trinity. Relentless competition from
18 imported weld fittings has exerted substantial
19 pressure on prices that Trinity is able to charge for
20 its fittings and, as a result, has had a damaging
21 effect on the margins that Trinity has earned on its
22 sales.

23 As Chris Forbis will discuss, in 2004, this
24 pattern was temporarily interrupted. We were able to
25 raise our prices and improve our financial results due

1 to an unusual combination of events, most notably a
2 series of significant increases in our raw material
3 prices. Our ability to maintain these results is
4 doubtful.

5 Our consolidation was a costly but
6 worthwhile effort and one which we believe positioned
7 Trinity to compete effectively with imported fittings,
8 but these changes will not insulate us from the
9 effects of the increase in cheaply priced imports that
10 we believe will occur if the antidumping orders are
11 revoked. As long as the five antidumping orders
12 remain in place, we have a chance to maintain a
13 reasonable rate of return. If these orders are
14 revoked, the impact on domestic producers will be
15 devastating. Therefore, I urge you to vote to
16 maintain these orders.

17 MR. TOTARO: Thank you, Don. Now we will
18 hear testimony from Chris Forbis.

19 MR. FORBIS: Good morning. My name is Chris
20 Forbis. I'm the executive vice president of Trinity
21 Fittings Group, Inc., and I appreciate the opportunity
22 to appear before you today.

23 As Don Graham mentioned, Trinity faced an
24 unusual combination of circumstances in 2004 that
25 affected our prices for weld fittings and at least

1 temporarily improved our financial results. I would
2 like to describe Trinity's experiences over the past
3 18 months or so and our expectations for the future.
4 I will provide as many specifics as I can in this
5 public setting, but I also direct the Commission to
6 the more detailed, confidential information on these
7 events that we provided in our questionnaire response
8 and prehearing brief.

9 In 2003, demand for weld fittings in the
10 United States was relatively low. This was fortuitous
11 for Trinity because the major elements of our
12 consolidation were still underway. Even though most
13 of our machinery had been moved from the two plants
14 that we closed, it took time to set up this machinery
15 and adjust it to perform well in its new locations.
16 By the end of 2003, our consolidation was completed,
17 and our transported equipment was up and running.

18 In late 2003, the United States market was
19 suddenly faced with a shortage of steel. This
20 included seamless pipe, which is our primary
21 production input for manufacturing weld fittings. As
22 the shortage grew, pipe prices began to increase.
23 However, the most significant pipe price increases
24 began in 2004. Our customers were concerned about
25 these increases and the shortages that were occurring

1 in the global market for steel. They thought that the
2 conditions of scarcity that caused the jump in pipe
3 prices might also limit their ability to obtain weld
4 fittings from either domestic or foreign sources.
5 Some customers viewed us, as a domestic manufacturer,
6 as a source more likely to be able to provide them
7 with the fittings they would need during this period
8 of uncertainty and to do so on a timely basis.

9 With these concerns in mind, some of
10 Trinity's customers placed orders for large quantities
11 of weld fittings in the early part of 2004 to secure
12 their projected supply requirements for most of the
13 year. A substantial part of Trinity's production
14 during 2004 was devoted to fulfilling these orders.

15 During 2004, Trinity experienced numerous
16 increases in pipe prices which nearly doubled the
17 price per ton for this raw material. We were able to
18 pass on some of these pipe price increases to our
19 customers in the form of higher prices for weld
20 fittings. Our price increases, combined with the
21 higher sales volumes we registered based upon these
22 early 2004 orders, contributed to the improvement in
23 Trinity's operating results in 2004.

24 As I mentioned earlier, 2003 was a
25 relatively stagnant year for Trinity for several

1 reasons. Our unremarkable performance in 2003 made
2 Trinity's improved financial results in 2004 appear
3 even more dramatic.

4 In 2005, Trinity's experience has been very
5 different. Most importantly, Trinity's customers, who
6 may have overstocked in 2004 based upon their concerns
7 about scarce supply from all sources, substantially
8 reduced their orders for weld fittings. I understand
9 from the combined data that the Commission collected
10 from the domestic industry that U.S. weld fittings
11 producers, as a whole, produced and sold a
12 significantly smaller volume of fittings in the first
13 half of 2005 compared to the first half of 2004.

14 It became clear to Trinity in 2005 that our
15 customers were no longer concerned about the potential
16 lack of availability of fittings from foreign sources.
17 In 2005, our customers have been increasingly willing
18 to order less-expensive, imported weld fittings, once
19 again focusing predominantly on price.

20 As a result of these conditions, which I
21 would describe as the more typical conditions in the
22 weld fittings market, Trinity, in 2005, again finds
23 itself in the position of losing sales to less-
24 expensive, imported weld fittings.

25 Another reality in 2005 is that prices for

1 our raw material, seamless pipe, remain extremely high
2 and continue to increase. So far, we have been able
3 to pass on these increases by raising our selling
4 prices proportionately. However, in light of the
5 renewed pressure from our customers to reduce prices,
6 it is not clear how much longer we will be able to
7 pass on material costs and still maintain acceptable
8 sales levels.

9 Lower-priced imports are already placing
10 severe pressure on Trinity's prices. These conditions
11 will be more pronounced if the antidumping orders on
12 weld fittings from Brazil, China, Japan, Taiwan, and
13 Thailand are revoked, and the volume of imported
14 fittings increases further. We fully expect that the
15 increased volume of imported weld fittings that would
16 result from the removed orders would decrease demand
17 for Trinity's products, which, in turn, would reduce
18 our production, shipments, revenues, and
19 profitability. This would jeopardize Trinity's future
20 as a domestic manufacturer of weld fittings and could
21 have similar effects on other members of the domestic
22 industry.

23 Moreover, we understand that some of our
24 domestic competitors rely, to varying degrees, on
25 imported weld fittings forgings which they finish in

1 the United States and sell under their own brand names
2 to fill out certain product lines. The increase in
3 low-priced, subject imports that we expect if the
4 orders are revoked could force domestic producers to
5 abandon even larger segments of their integrated
6 production. The migration from integrated production
7 to mere finishing is not in the best interests of U.S.
8 producers or consumers, but it could be viewed as the
9 only means of survival if import competition becomes
10 too great.

11 I ask the Commission not to remove the five
12 antidumping orders. These orders have been effective
13 in reducing unfairly traded imports of weld fittings
14 and have shielded Trinity from the damage that has
15 been inflicted by those imports. I urge you to vote
16 to retain the antidumping orders. Thank you.

17 MR. TOTARO: Thank you, Chris.

18 That concludes our direct presentation, and
19 I will pass to counsel for Weldbend Corporation.

20 MR. KRIESBERG: Good morning. My name is
21 Simeon M. Kriesberg of the law firm of Mayer, Brown,
22 Rowe & Maw. I'm here with my colleagues, Carol Bilzi
23 and Priti Seksaria Agrawal, and traveling to
24 Washington from Argo, Illinois, is Weldbend
25 Corporation Official James J. Coulas, Jr., who will be

1 sharing with the Commission his insights into the
2 state of the industry today.

3 MR. COULAS: Good morning, Mr. Chairman, and
4 members of the Commission, and thank you for this
5 opportunity to appear before you today. My name is
6 James J. Coulas, Jr., of Weldbend Corporation.
7 Weldbend is based in Argo, Illinois, just outside of
8 Chicago.

9 Weldbend was founded by my father some 50
10 years ago, and we have been in the carbon steel butt-
11 weld, pipe-fitting business ever since. What began as
12 a small company employing my father and one other
13 person has grown into a substantial operation with
14 nearly 200 employees.

15 Weldbend has worked hard to remain
16 competitive in the face of low-priced imports. Over
17 the past 15 years, we have invested millions of
18 dollars to become a more integrated producer. We have
19 improved our plant and increased our efficiency by
20 acquiring additional, customized manufacturing
21 equipment. Today, we are the only company in America
22 that manufactures both carbon steel fittings and
23 carbon steel flanges.

24 Five years ago, the Commission decided that
25 removing the antidumping duty orders on fittings from

1 Brazil, China, Japan, Taiwan, and Thailand would lead
2 to a continuation or a recurrence of the injury that
3 lead to the orders to be imposed in the first place.

4 The question before you today is whether
5 things have changed so much in the past five years
6 that a different decision must be made. The short
7 answer is that most things have remained the same, and
8 a few things have changed, but the overall result is
9 that our industry, at this moment in time, is more
10 vulnerable to injury from dumped imports than ever
11 before.

12 Let me explain why. First, what things have
13 remained the same? I would point to several things.
14 The first of these is that carbon steel butt-weld pipe
15 fittings remain a commodity product. All butt-weld
16 pipe fittings, whether domestic or imported, must meet
17 ASTM and ANSI standards. Once these specifications
18 are met, butt-weld pipe fittings can be used
19 interchangeably. Each of the companies testifying
20 before you today is proud of their own products, but
21 we all know from hard experience that to most of our
22 customers one producer's fittings are pretty much
23 interchangeable with another's, and that is true
24 whether the producer is American or foreign. Fittings
25 are also a commodity product in the sense that they

1 are manufactured in many different countries, so the
2 sources of supply are numerous.

3 A second thing that remains the same is that
4 price is a key consideration in a purchaser's choice
5 among fittings suppliers. The Commission has found
6 this to be true time and again. It is simply a fact
7 of life in our industry. I know this especially well
8 because Weldbend's price list is often considered the
9 industry standard, and many distributors of foreign
10 fittings quote their prices as discounts from the
11 Weldbend price sheet.

12 A third thing that remains the same is that
13 the domestic industry consists of the same products
14 today as during the Commission's last review in 1999.
15 There has not been any major restructuring of our
16 industry as we have seen in some other sectors of the
17 U.S. steel industry. While we have seen the industry
18 contract from 12 producers in 1986 to seven in 1992
19 and then undergo further consolidation in the 1990's,
20 the industry today retains essentially the same
21 configuration as it did in the Commission's first
22 review.

23 A fourth thing that remains the same is that
24 the demand for carbon steel butt-weld pipe fittings
25 has remained relatively stable since 1999. Although

1 there are fluctuations in demand with the ups and
2 downs of a business cycle, there is limited room for
3 growth in this market. Demand for carbon steel butt-
4 weld pipe fittings depends on the vitality of the
5 industries that use them, such as industrial and
6 commercial construction, oil and gas, chemical,
7 electrical power, and many other industries.

8 In the area around our plant in Argo, we
9 have seen the demise of several large industrial
10 plants. Down the street, a large manufacturing
11 facility was recently torn down to make way for a
12 soccer field. Soccer fields do not use fittings.
13 About a mile from our plant, a couple of other
14 manufacturing sites are being replaced by large
15 warehouses, and warehouses do not use fittings.

16 These are only a few illustrations in my
17 area of the country of the general shift from
18 manufacturing to service industries in our country.
19 As a result of this shift, there is not much prospect
20 for the growth of demand for fittings, and there is no
21 opportunity for new product development.

22 So we have the same four producers vying for
23 a share of the market with relatively stable demand
24 where customers give heavy weight to relative price
25 when choosing among suppliers.

1 Finally, as during the last review, domestic
2 producers remain under constant pressure from lower-
3 priced imports, and as was the case during the
4 Commission's last review, imported fittings continue
5 to undersell domestic fittings. Within recent months,
6 I have seen distributors of imported products quoting
7 prices some 35 to 40 percent below Weldbend's own
8 discounts, and just last year, we were stunned to
9 learn that fittings ordered for use by National Steel
10 and Shipbuilding Company in San Diego in constructing
11 12 U.S. Navy, ammunition-cargo vessels were foreign-
12 made fittings rather than domestic fittings. Our
13 understanding is that the domestic industry lost the
14 business because foreign-made fittings substantially
15 undersold domestic fittings.

16 I'll turn to the changes in the market since
17 the last review. What has changed? Perhaps the most
18 significant change in the past five years is the
19 unprecedented increase in the cost of raw materials
20 used to make carbon steel butt-weld pipe fittings.
21 Beginning in the fourth quarter of 2003 and continuing
22 through 2004, we saw the price of scrap steel increase
23 dramatically. This caused increases in the price of
24 carbon steel pipe used to make fittings. This steep
25 rise in raw material costs forced the domestic

1 producers to raise their prices in order to cover
2 their increased costs.

3 While the cost of raw material remains high,
4 domestic producers will not be able to pass these
5 costs on to our customers indefinitely without a
6 serious erosion in our market share. On the contrary,
7 the unprecedented cost of price increases and the
8 associated increase in sales and revenues are not
9 sustainable. In fact, conditions have already begun
10 to change.

11 During 2004, the domestic industry's sales
12 increased as we saw what I would call "panic buying."
13 There was great uncertainty as customers wondered
14 whether they would be able to find a sufficient supply
15 of fittings in a market where raw material costs had
16 skyrocketed. Under these circumstances, we were able
17 to institute a number of price increases for our
18 fittings, but the increased demand we saw from panic
19 buying during 2004 has faded. Customers are no longer
20 concerned about short supply.

21 As a result, the volume of domestic sales by
22 our industry dropped dramatically in the first half of
23 2005, and yet our costs have continued to increase.
24 In addition to increased raw material costs, we have
25 seen increases in energy, labor, fuel, and health

1 insurance costs since the last review. It is
2 impossible to sustain the higher price levels needed
3 to cover our increased costs without losing more and
4 more sales to cheap imports.

5 Let me emphasize that although we were able
6 to increase our prices in 2004, at a time when
7 customers were eager to purchase our products because
8 of a perceived scarcity in the market, the increased
9 sales and higher prices were only temporary.

10 The second change in the last five years is
11 that the industry has seen its market share shrink
12 while imports continue to make inroads into the
13 market. We are struggling to maintain even half of
14 the domestic market while capacity utilization in the
15 industry remains very low. We have unused capacity at
16 Weldbend as does the rest of the domestic industry.

17 A third change over the past five years is
18 the increase in exports from subject countries to
19 markets outside the United States. If the Commission
20 were to lift the orders, there is no doubt that
21 foreign producers would shift substantial volumes of
22 their exports to the U.S. market. The United States
23 remains a very attractive market for foreign
24 suppliers. It is a large market with a good
25 distribution system, and we understand that U.S.

1 prices are generally higher than those in foreign
2 markets.

3 Without the current antidumping duty orders,
4 there would be a flood of dumped imports from subject
5 countries. In fact, we have strong reason to believe
6 that the Chinese fittings are already entering the
7 United States through other countries, in
8 circumvention of the orders. We, ourselves, have been
9 offered fittings by Chinese suppliers that were to
10 transit through other countries and have other
11 country-of-origin markings. Of course, we have
12 refused these offers and have contacted the
13 appropriate authorities.

14 The European Union has encountered the same
15 problem. The EU has found that Chinese producers of
16 butt-weld pipe fittings have tried to circumvent the
17 EU's antidumping order by trans-shipping fittings
18 through Taiwan. We are also concerned about Chinese
19 imports flooding the U.S. market if the orders are
20 lifted because the Chinese are already subject to
21 antidumping duties in the EU and Mexico.

22 Given what has remained the same and what
23 has changed over the past five years, it is clear that
24 the industry is more vulnerable to dumped imports than
25 it has ever been. Fittings are a commodity product

1 and are extremely price sensitive. Imported fittings
2 and domestic fittings are interchangeable as long as
3 they meet the industry standards. This is a mature
4 market with relatively stable demand and little room
5 for innovation or growth. The industry has struggled
6 to remain competitive but has not experienced any
7 major reorganization or restructuring since the last
8 review.

9 We saw unprecedented increases in raw
10 material costs, and for the first time ever, imported
11 fittings have captured a greater share of the market
12 than domestic fittings in 2005. Producers in the
13 subject countries are poised to take advantage of the
14 large, open U.S. market if the five antidumping duty
15 orders are removed, as evidenced by large volumes of
16 exports from these countries to market share outside
17 the United States. This is clearly not the time to
18 remove the order that has been effective in keeping
19 large volumes of dumped imports from these five
20 countries out of the U.S. market.

21 I mentioned at the outset of my testimony
22 that my father founded Weldbend some 50 years ago.
23 Today, at age 91, he still comes to the office every
24 day. Also coming to the office every day are members
25 of the third generation of my family, including my

1 son. Given the current vulnerable state of the
2 domestic industry and devastating impact that dumped
3 imports would have if the Commission were to lift the
4 five orders, I worry Weldbend will be around when the
5 next generation is ready to assume the leadership.

6 My family has worked hard to build this
7 business, and we are proud of what we produce: an
8 important steel product that is an essential
9 component of every industrial and commercial structure
10 in the United States. The decision of the Commission
11 is very important to our family, to the future of our
12 company, and to the future of the domestic industry.
13 Weldbend urges the Commission to keep all five of the
14 orders in place. I appreciate the time in
15 consideration of this matter that is so important to
16 my family.

17 MR. KRIESBERG: That concludes the testimony
18 on behalf of Weldbend.

19 MR. BOGARD: Good morning. For the record,
20 I'm Lawrence Bogard from the law firm of Nelville
21 Peterson. To my far right is my colleague, Catherine
22 Chess Chen. To my immediate right is Jay Zidell, who
23 is the president of Tube Forgings of America, Inc.
24 Mr. Zidell has come this morning from Portland,
25 Oregon. To my left is Kenneth Berger, who is the

1 president of Mills Iron Works, who has come to testify
2 this morning from southern California. Having
3 concluded the introductions, I'm sure you would rather
4 hear from the industry members than the lawyers, so I
5 will hand the microphone to Mr. Berger.

6 MR. BERGER: Good morning. My name is Ken
7 Berger. I'm president of Mills Iron Works. Mills
8 Iron Works has been in the carbon steel butt-weld
9 business since 1905 and just celebrated our 100th
10 anniversary.

11 I have traveled from Gardena, California,
12 to testify today because I want to tell you personally
13 how essential these orders are to our industry. The
14 subject orders have been a lifeline to the domestic
15 industry and for Mills Iron, but they have not been
16 our salvation. By that, I mean, while the orders have
17 helped us and the rest of the U.S. industry to
18 continue in business, they have not enabled the U.S.
19 industry to achieve financial strength.

20 The financial condition of our industry is
21 extremely fragile, and we are vulnerable to
22 competition from low-priced imports. Given this
23 vulnerability, the impact of revocation of the orders
24 on Mills Iron and the other members of the industry
25 would be devastating. Let me explain why.

1 In my view, demand for fittings in the
2 United States is declining. There has been virtually
3 no new construction in the petrochemical industry. In
4 fact, it has been decades since a refinery was built
5 in the United States. In addition, the crude oil and
6 gas industries now perform their maintenance cycles
7 less frequently than in the past, and they use fewer
8 fittings as a result.

9 Finally, the chemical industry's demand for
10 fittings has decreased. Falling demand cannot be
11 offset by new market opportunities. Ours is a mature
12 industry. Very little has changed in terms of product
13 design, product technology, or end uses for a long
14 time. Consequently, we have few opportunities for
15 growth or expansion.

16 The consolidation of our customer base has
17 also limited our expansion opportunities. In the
18 past, our customer base consisted of numerous, small,
19 independent distributors, each of which would place
20 its own orders. Many, if not most, of these
21 independent distributors have been purchased by larger
22 distributors who run them as branches of their
23 companies. While this has made our sales process more
24 efficient because we now sell to a centralized
25 purchasing office, it has also reduced opportunities

1 for sales by eliminating a number of independent
2 customers. Given our limited opportunities for
3 growth, we have been working for 20 years to make
4 better use of production technology, improve the
5 efficiency of our operations through the
6 implementation of such concepts as demand-flow
7 technology or lean manufacturing. These advances on
8 the cost side of our business would be jeopardized by
9 competition with subject imports if the orders were
10 revoked.

11 U.S. and foreign fittings are highly
12 substitutable for each other. The Commission
13 acknowledged this in past cases, and nothing has
14 changed. As has been true since the first
15 investigation, all butt-weld fittings, whether
16 domestic or imported, must meet the standards set by
17 ASTM and ASME. As long as fittings satisfy the
18 criteria established by these organizations, they are
19 substitutable for one another. The industry's limited
20 opportunity for expansion means that competition among
21 us is fierce. The high level of substitutability
22 among all butt-weld fittings means that this
23 competition is primarily based on price.

24 All of us who sell butt-weld fittings in the
25 United States use a list price and then quote a

1 multiplier discount to calculate the net price at
2 which the fittings are actually sold. Competition
3 occurs on a net-price basis. Customers make it very
4 clear when they can obtain a lower net price from
5 another supplier, and that puts tremendous pressure on
6 us to keep prices down.

7 The price system that I've just described
8 makes it very easy for importers to undercut our
9 prices. They know exactly what the price has to be to
10 undercut ours, and they consistently do it. As the
11 staff report shows, domestic prices are currently
12 being undercut by imports from nonsubject countries.
13 This price pressure will become even more intense for
14 us if the orders are revoked. Imports from the
15 subject countries undercut domestic prices by wide
16 margins during the original investigations, and they
17 continue to do so.

18 According to the staff report, the average
19 value of imports from each of the subject countries
20 has been lower than the average shipment value of
21 domestic fittings throughout the period covered by the
22 review.

23 It is important for you to understand that
24 the imports do not actually have to take a sale to
25 pressure our prices. The mere fact that they are

1 quoting prices below ours creates pressure. So it is
2 not necessary for the subject imports to be here in
3 large volumes to drive prices downwards. It is
4 sufficient that importers would be able to quote
5 prices without the discipline imposed by the
6 antidumping duty orders. Because of this, I am
7 certain that downward price pressure from subject
8 imports would cause domestic prices to plummet if the
9 orders were revoked.

10 I'm equally certain that if the orders were
11 lifted, subject imports would, in fact, return to the
12 United States in very high volumes. As the exhibits
13 attached to our prehearing brief show, each of the
14 subject countries manufactures butt-weld fittings and
15 is focused on exporting them. Foreign manufacturers'
16 Web sites call the United States a "target market" and
17 boast of their joint overseas strategy to increase the
18 volume of exports abroad.

19 The United States is the largest market in
20 the world. Each of the subject countries was a major
21 supplier to this market before the orders were
22 imposed. Chinese producers are subject to antidumping
23 orders in Europe and in Mexico. Thailand producers
24 faced a European order as well. A reopened U.S.
25 market would be the obvious alternative to these

1 markets.

2 I think that the recent surge of nonsubject
3 imports, however, is the best evidence that low-priced
4 imports from subject countries will flood the U.S.
5 markets in the absence of the orders because it proves
6 the attractiveness of the U.S. market for low-priced,
7 foreign products. If the orders were revoked, the
8 combined effect of reentry into the market of subject
9 merchandise and the ever-increasing volume of imports
10 from nonsubject producers could cripple the U.S.
11 industry through declining prices and shrinking market
12 share.

13 Speaking for Mills Iron, it is important for
14 the Commission to understand that price increases and
15 corresponding profits we realized in 2004 will not
16 insulate us from the harmful effects of price
17 undercutting by subject imports. The price increases
18 were caused by a surge in our raw material costs, and
19 they cannot be sustained. The surge in steel prices
20 created an atmosphere which allowed the domestic
21 industry to raise its prices and see moderate profit
22 growth during 2004.

23 Mills Iron, in particular, experienced an
24 immediate benefit from these circumstances because we
25 had raw material inventory purchased prior to the run

1 up in steel prices. This allowed us to benefit from
2 the old raw material costs and the new price
3 structure, including our 2004 performance. In
4 addition, I'm sure that we made sales to some
5 customers who were purchasing merely to avoid
6 anticipated future price increases. While this helped
7 us in the short run, in the long run, it cost us
8 future sales.

9 The events of 2004 were unique,
10 unsustainable, and, I believe, short lived. Looking
11 at the data for the first half of 2005, domestic
12 shipment volumes and domestic market share have
13 declined. These trends suggest that our customers are
14 resisting sales at our current prices, and a cost-
15 price squeeze could be near. Soon, we could be faced
16 with a Hobson's choice: We can either maintain our
17 prices to cover our raw material costs and lose sales,
18 or we can lower prices in an attempt to maintain sales
19 volume. Either way, the certain result will be
20 falling revenue and profitability.

21 In these circumstances, revoking the orders
22 would present Mills Iron with the worst-case scenario:
23 Low-cost imports would flood U.S. markets in very high
24 volumes. There is no increased demand to absorb them.
25 Subject imports would try to seize U.S. market share

1 by undercutting our prices. This undercutting would
2 suppress or depress our prices, depriving the domestic
3 industry of our modest recent profit.

4 Speaking for Mills Iron alone, it would be
5 very difficult to continue as an ongoing business in
6 such an environment. Thank you very much for your
7 attention. I'm happy to answer any questions you may
8 have.

9 MR. ZIDELL: Good morning. I am Jay Zidell,
10 president of Tube Forgings of America, Inc. TFA is a
11 family-owned company based in Portland, Oregon. We
12 are celebrating our fiftieth year in business.

13 The condition of the domestic industry is
14 largely the same as it was when the orders were
15 imposed, except there are fewer of us. There were 12
16 U.S. manufacturers of butt-weld fittings in 1986.
17 That number fell to seven by 1992, and now there are
18 only four of us. The orders have enabled us survivors
19 to remain in business. They have not enabled us to
20 prosper.

21 As you know from the staff report, while
22 industry production levels have fluctuated during the
23 period of review, they declined sharply in the first
24 half of this year. The industry's utilization of
25 production capacity has consistently been low, with

1 the industry operating at less than two-thirds of its
2 available production capacity throughout the review
3 period.

4 In 2005, the volume of our shipments has
5 fallen, and we now represent less than half of
6 apparent consumption in our own market. These are not
7 signs of a healthy industry. The industry's modest
8 profit in 2004 does not reflect an improvement in the
9 overall financial health of the industry; rather, it
10 is an aberration brought about by a series of price
11 changes implemented to combat the surging cost of our
12 raw material.

13 Beginning in the fourth quarter of 2003,
14 there have been multiple price increases in seamless
15 steel pipe. These increases have forced domestic
16 manufacturers to raise prices repeatedly. TFA has
17 raised its price seven times since February 2004.
18 This followed a period of three full years in which we
19 did not raise prices at all. While the short-term
20 effect of these increases was an industry-wide profit,
21 the long-term impact will be far from process.

22 As Mr. Berger has explained, some of the
23 profit generated in 2004 was the result of customers
24 buying to avoid future price increases. These sales
25 are unsustainable, and my own company's experience

1 since October 2004 indicates that purchasers have
2 begun to resist placing orders at the industry's
3 current prices. If we cannot raise prices, or we have
4 to reduce them, and raw material costs remain high,
5 which we expect them to do, the result will be the
6 significant erosion, if not elimination, of the
7 industry's profitability.

8 Other factors contribute to the
9 vulnerability of our industry. We are facing
10 increasing competition from low-priced, nonsubject
11 imports, particularly those from Mexico, Malaysia, and
12 Korea. At TFA, we recently curtailed overtime
13 operations on a regular basis as the result of losing
14 market share to fittings from nonsubject countries.

15 Furthermore, as discussed by Mr. Berger,
16 imported fittings compete directly with domestic
17 products, and the two types of fittings are highly
18 substitutable for one another. I agree with Mr.
19 Berger that as long as the fittings meet ASTM and ASME
20 specifications, quality is not an issue, and imported
21 and domestically produced fittings compete with each
22 other on the basis of price.

23 The staff report suggests that the so-called
24 "approved vendors lists" used by some U.S. customers
25 limit the substitution of imported fittings for

1 domestic fittings, but that simply is not the case for
2 several reasons.

3 First, manufacturers from Japan, Thailand,
4 and a number of nonsubject countries are on the
5 approved vendors lists.

6 Second, in the experience of my sales staff,
7 procurement personnel do not strictly adhere to the
8 approved vendors lists. It appears that the run up in
9 steel prices has placed pressure on persons
10 responsible for procurement at companies that use
11 approved vendors lists to purchase steel pipe and
12 fittings from the cheapest source possible. As a
13 result, many procurement departments now consider ISO
14 certification to be a sufficient litmus test for
15 manufacturer reliability regardless of whether a
16 manufacturer is on an approved vendor list. Many
17 subject manufacturers, including those from China and
18 Japan, are ISO certified.

19 Third, my sale staff reports to me that
20 purchasers who use approved vendors lists are now
21 accepting seamless carbon steel pipe manufactured in
22 China. If these purchasers are willing to use Chinese
23 pipe, it is likely they would purchase Chinese
24 fittings if Chinese fittings were more readily
25 available.

1 The high level of substitutability might be
2 less of a concern if U.S. demand could increase to
3 absorb growing volumes of foreign fittings, but for
4 the reasons Mr. Berger discussed, that is not likely.
5 If the orders were revoked, our industry would lose
6 still more of its market share to low-priced, subject
7 imports. The staff report confirms this.

8 In responding to the Commission's
9 questionnaire, purchasers indicated their willingness
10 to buy low-priced, imported fittings. All purchasers
11 noted that price is a very important factor in
12 deciding which butt-weld fittings to buy, and one
13 predicted that the market as a whole would move toward
14 imports because of lower prices. Yet another
15 purchaser acknowledged that if the orders were
16 removed, they would solicit pricing from certain mills
17 in Thailand to see if they were more competitive.
18 While purchasers are looking to buy low-priced
19 imports, one piece of evidence is that manufacturers of Thai
20 fittings are preparing to make those goods readily
21 available.

22 One of my employees was recently informed
23 that a representative from Canadoil Group, the owner
24 of Thai Benkan, has been meeting with our customers in
25 the United States to promote sales of Thai Benkan

1 fittings. Canadoil has been telling customers that it
2 will have additional capacity available later this
3 year to supply the U.S. market. When asked about this
4 capacity, Canadoil relates it to an expectation that
5 the Thailand order will be revoked. Canadoil purchase
6 of Thai Benkan in 2002 shows that Thai Benkan is well
7 funded and in a better position than ever to export
8 Thai fittings to the United States.

9 Other subject manufacturers are also
10 earmarking funds and engineering strategies to
11 increase exports of subject fittings. For instance,
12 the Brazilian company, Conforja, which, I believe, now
13 operates as Uniforga, appears to be receiving money
14 from the Brazilian Economic and Social Development
15 Bank to support the sale and exportation of its
16 products, including butt-weld fittings.

17 Two Japanese manufacturers, Awaji Sangyo and
18 Bendix Corporation, have joined forces to create a
19 joint, overseas strategy aimed at improving their
20 performance in export markets, and one Taiwanese
21 distributor of subject fittings described its primary
22 business goal as promoting various pipe fittings in
23 both domestic and foreign markets in order to achieve
24 the dream of global business. China, as Mr. Berger
25 explained, also appears to have an aggressive, export-

1 oriented agenda.

2 If these manufacturers are given unfettered
3 access to the U.S. market, I am certain that their
4 prices will undercut ours. The staff report states
5 that importers generally negotiate their price based
6 on market conditions on a transaction-by-transaction
7 basis, with cost plus being whatever the market will
8 support.

9 Based on my experience, that is incorrect.
10 Rather, importers intentionally set their prices at a
11 particular level below that of U.S. producers in order
12 to capture a certain volume from the U.S. market. I
13 believe that this underpricing would occur on a much
14 larger scale if the orders were revoked, and the
15 effect on our industry, already in a vulnerable state,
16 would be devastating.

17 If the orders were revoked, TFA would face
18 an influx of subject imports. In the short term, we
19 would experience an almost immediate decline in
20 shipments, forcing us to further reduce production
21 hours and the size of our production workforce.
22 Profits surely would decline, if not disappear, as a
23 result of reduced sales, reduced or stagnant prices,
24 or both.

25 While I cannot predict how my company would

1 respond to these competitive pressures, I can say that
2 they would have a profound, negative effect on our
3 ability to continue as a full-line, U.S. manufacturer
4 of butt-weld pipe fittings.

5 I urge the Commission not to revoke the
6 orders. Thank you for your time, and I am prepared to
7 answer any questions you may have.

8 MR. BOGARD: Thank you. That concludes the
9 testimony of all witnesses for the domestic industry.

10 CHAIRMAN KOPLAN: Thank you very much.
11 First, I want to apologize for being late this
12 morning. That's actually the first time that's
13 happened to me. I realize I missed the opening
14 statement and the first part of Mr. Graham's
15 testimony, but I will have a transcript of all of
16 this, and so I will review that.

17 I'll begin the questioning, and I direct
18 this question to the industry witnesses. However,
19 first, I just want to note that in your responses to
20 the notice of institution for these second five-year
21 reviews, I realize you indicated that no significant
22 changes in the market have taken place during the last
23 five years, that the product and the industry are
24 technologically mature, that there have been no new
25 end users nor new substitute products, and the price

1 remains the principal determinant in making a sale.
2 You argue that since the Respondents once again have
3 exercised their option not to participate, the
4 Commission should expedite this review, as we did in
5 the first review. You do mention the increase in raw
6 material costs as an ongoing problem that you all
7 face, and you've talked about that again this morning,
8 and, of course, that was in your briefs as well.

9 I saw nothing new either and, therefore,
10 voted to expedite. Your prehearing briefs and
11 testimony appear consistent with your initial
12 responses. However, since I have you here, I am
13 curious as to why subject imports from Thailand have
14 continued at what I consider to be significant levels
15 despite antidumping margins of nearly 53 percent. Is
16 that caused, in large part, by the fact that during
17 the period the European Union has had even higher
18 antidumping duty orders in place, nearly 60 percent
19 with regard to Thailand?

20 I can't disclose either their market share
21 or the data related to their imports because that is
22 business-proprietary information, but I'm sure you
23 must be aware of their continued significant presence,
24 and I would like to hear from the industry witnesses
25 as to why I see that in our data. Who would begin?

1 MR. ZIDELL: I would like to take a shot at
2 it, if I could.

3 CHAIRMAN KOPLAN: As you go along, if you
4 could re-identify yourselves for the record for
5 purposes of the court reporter.

6 MR. ZIDELL: Certainly. I'm Jay Zidell from
7 Tube Forging.

8 CHAIRMAN KOPLAN: Thank you.

9 MR. ZIDELL: I'm a little confused by your
10 question. The domestic industry is faced with a
11 tremendous amount of Thai product that comes in here,
12 but it almost exclusively comes from one company who,
13 in a prior dumping case, was found to be at a de
14 minimis level and therefore escaped any dumping
15 orders. I'm guessing that the volume of imports
16 you're seeing is coming from that country.

17 CHAIRMAN KOPLAN: I think what you're saying
18 to me is that those are nonsubject imports that I'm
19 looking at.

20 MR. ZIDELL: Yes, sir. That's correct.

21 CHAIRMAN KOPLAN: But that's not the case.
22 What I'm looking at are subject imports from Thailand,
23 and they still appear significant to me. I appreciate
24 what you're referring to, but I'm on a different page.
25 I'm saying that when I look at Thai subject imports,

1 they are still, in my opinion, significant --

2 MR. TOTARO: Excuse me. Mr. Chairman?

3 CHAIRMAN KOPLAN: -- and I'm talking about
4 the imports that are the subject of this order.

5 MR. TOTARO: Mr. Chairman?

6 CHAIRMAN KOPLAN: Yes.

7 MR. TOTARO: I'm sorry to interrupt. This
8 is John Totaro from Schmeltzer, Aptaker & Shepard. We
9 did point out in our brief that the Commission staff
10 had to choose a manner of determining what proportion
11 of the total Thai imports were subject and what were
12 nonsubject.

13 CHAIRMAN KOPLAN: You wanted us to do an
14 alternative computation, as I recall.

15 MR. TOTARO: Right. Our understanding and
16 our reading of the data was that the way the data was
17 presented in the staff report overstated the quantity
18 of the total imports represented by subject imports,
19 and Trinity's understanding was that a very small
20 proportion of the total imports from Thailand were
21 subject imports.

22 CHAIRMAN KOPLAN: Could you elaborate on
23 that for me again?

24 MR. TOTARO: Sure.

25 CHAIRMAN KOPLAN: I know it was in your

1 brief.

2 MR. TOTARO: A lot of this is proprietary,
3 so I'll try to be as specific as I can.

4 CHAIRMAN KOPLAN: As much as you can because
5 I'm curious as to whether the other companies agree
6 with you, whether you had talked with them. I thought
7 you were the only one that raised it, actually.

8 MR. TOTARO: I think counsel for Weldbend
9 made at least a general statement that they thought
10 that the subject imports, as presented, were
11 overstated.

12 I think the way it was presented in the
13 staff report drew the data that was presented as
14 subject imports from questionnaire responses.

15 CHAIRMAN KOPLAN: Subject imports were
16 overstated or understated?

17 MR. TOTARO: I believe that the quantity of
18 subject imports were overstated. We believe there are
19 actually very few subject imports in the market and
20 that the vast majority of Thai imports that are in the
21 market are those produced by Awaji Sangyo, who is not
22 subject to the order.

23 CHAIRMAN KOPLAN: Okay.

24 MR. TOTARO: There is other information on
25 the record, just, you know, another source, that the

1 Commission could use to make the subject-nonsubject
2 breakdown, which is data, I believe, received from the
3 Census Bureau or customs that identifies the importer
4 and identifies the manufacturer, and I think that's
5 just another way of going about it that I think will
6 provide a more accurate portrayal of the subject-
7 nonsubject breakdown.

8 CHAIRMAN KOPLAN: You did mention that they
9 were overstated in your brief, as I recall.

10 MR. TOTARO: Right. That's right.

11 CHAIRMAN KOPLAN: And do the other companies
12 agree with your suggestions?

13 MR. BOGARD: Yes, Commissioner. I think
14 both Mills Iron and, obviously, Mr. Zidell at Tube
15 Forgings would agree with the assessment. I think the
16 issue, as presented by Trinity in their brief,
17 addressed it really pretty well.

18 CHAIRMAN KOPLAN: And Weldbend?

19 MS. BILZI: Weldbend would agree as well,
20 Commissioner. We would agree with the analysis in
21 Trinity's brief as well.

22 CHAIRMAN KOPLAN: And if you could just
23 identify yourself again for the record.

24 MS. BILZI: Carol Bilzi on behalf of
25 Weldbend.

1 CHAIRMAN KOPLAN: Thank you very much. I
2 appreciate your responses to that question.

3 At page 12 of TFA's and Mills' joint
4 prehearing brief, you state that the domestic industry
5 turned, and I quote, "a small profit of 3.6 percent
6 for the first time in 2001" when sales increased in
7 anticipation of the imposition of Section 201 trade
8 restraints. Profits increased to 4.8 percent in 2002
9 after the safeguard tariffs went into effect but fell
10 in 2003 to a mere 1.7 percent."

11 As part of your post-hearing submissions,
12 will each of the domestic producers quantify for me
13 the impact of the Section 201 safeguard duties cited
14 in your brief as consisting of an additional tariff of
15 13 percent ad valorem? I would like this financial
16 information for each of your companies in terms of
17 your profits while the tariffs were in effect, as well
18 as the impact that resulted from the lifting of the
19 tariffs.

20 Counsel, will each of you document that for
21 me in your respective submissions? If for the record,
22 you could just respond, I would appreciate that. Go
23 ahead.

24 MR. BOGARD: We'll certainly do so,
25 Commissioner.

1 CHAIRMAN KOPLAN: That's --

2 MR. BOGARD: -- Mr. Bogard. I'm sorry.

3 CHAIRMAN KOPLAN: Yes. Thank you.

4 MR. TOTARO: This is John Totaro. We'll
5 address that in our post-hearing brief.

6 CHAIRMAN KOPLAN: And counsel for Weldbend?

7 MR. KRIESBERG: Simeon Kriesberg. We will
8 address that, yes.

9 CHAIRMAN KOPLAN: Thank you very much.

10 In their joint response to the notice of
11 institution in these current reviews, TFA and Mills
12 took the position, at page 21, that Tube Line is no
13 longer a related party because Easy Flow, Inc., a
14 Canadian manufacturer of large-diameter, high-yield,
15 carbon steel butt-weld pipe fittings, has acquired
16 Tube Line and changed its name to Tube Line Easy Flow,
17 New Jersey, Inc.

18 My question is twofold: First, exactly when
19 did that merger occur; and, second, do the other
20 domestic producers agree that Tube Line should no
21 longer be considered a related party? Can someone
22 tell me first when that merger took place?

23 MR. BOGARD: I'm sorry, Commissioner.
24 Neither Mr. Berger nor Mr. Zidell remember at the
25 moment, but we will do the research and report in the

1 post-hearing brief.

2 CHAIRMAN KOPLAN: Okay. Does anyone have a
3 recollection of that? I understand it took place
4 during the five-year period we're looking at; I just
5 don't know when.

6 MR. FORBIS: I don't know the date either,
7 but I would say that that facility in New Jersey is
8 offering product in the market.

9 CHAIRMAN KOPLAN: Do the other domestic
10 producers agree with TFA and Mills that Tube Line
11 should no longer be considered a related party?

12 MR. FORBIS: Are you saying related, in that
13 they produce weld fittings and --

14 CHAIRMAN KOPLAN: No, because of the change
15 of ownership. Do you want to look at that issue and
16 respond in the post-hearing submission?

17 MS. ELLSWORTH: Yes. That's exactly what
18 we'll do.

19 CHAIRMAN KOPLAN: Thank you, Ms. Ellsworth.
20 And what about Weldbend?

21 MR. KRIESBERG: We'll be happy to look into
22 that, too.

23 CHAIRMAN KOPLAN: And respond for purposes
24 of the post-hearing?

25 MR. KRIESBERG: Fine. Sure.

1 CHAIRMAN KOPLAN: Okay. It might help you
2 if you go back and look at our original views in the
3 first review. That might be helpful to you in framing
4 this. Thank you. I look forward to that, and we'll
5 turn the questioning over to Vice Chairman Okun.

6 VICE CHAIRMAN OKUN: Thank you, Mr.
7 Chairman, and let me say welcome to all of you this
8 morning. I appreciate all the witnesses being here,
9 and I understand a number of you have traveled from
10 around the country to be here, and, again, I
11 appreciate it.

12 I did not participate in the first review.
13 I've had an opportunity to review that record, but it
14 was an expedited proceeding; and, therefore, I really
15 welcome the opportunity to learn a little bit more
16 about conditions of competition, both during the
17 period of review that we're looking at and in the
18 reasonably foreseeable future.

19 So I think I will start with a question as
20 it relates to '04 and then looking forward. I know a
21 number of you have had an opportunity to talk about
22 what you saw in '04, and I think a couple of you
23 described it as panic buying.

24 So I guess my first question for the
25 industry witnesses would be to help me understand, in

1 '04, did you perceive your customers as panic buying
2 because of perceived shortages in the U.S. market, or
3 was it a worldwide perception that demand was up in
4 perhaps the Asian markets or otherwise and that that
5 was driving this? I want to understand that a little
6 bit better. Mr. Forbis, you're shaking your head.
7 Why don't you start?

8 MR. FORBIS: Okay. I think it would be
9 certainly a concern in the U.S. market. Outside the
10 U.S., I would just be guessing, but I would think they
11 thought it would be a shortage as well.

12 MR. COULAS: Commissioner Okun, I would like
13 Mr. Berger to address that question as well.

14 VICE CHAIRMAN OKUN: Sure. Mr. Berger?

15 MR. BERGER: I can't really speak as much
16 for outside the United States, but the thing was
17 basically driven by the price of steel. Steel is a
18 worldwide product, and for our industry, that
19 translated into carbon pipe, which is seamless pipe.
20 If you can't get the basic raw materials to make that,
21 you just simply don't produce pipe, and if there is no
22 pipe around, there won't be any fittings. So I think
23 it sort of snowballed on itself, starting with sort of
24 flat-rolled steel, that kind of thing, and scrap,
25 followed by pipe coming to us.

1 VICE CHAIRMAN OKUN: Okay. Mr. Coulas, did
2 you want to add anything there?

3 MR. COULAS: I would say that it was a
4 worldwide perception that there was going to be a
5 shortage. Talking with other producers throughout the
6 world, they were getting high prices, no scrap to make
7 the material, and they all felt that there would be
8 great shortages.

9 VICE CHAIRMAN OKUN: Okay. And then you
10 talked a little bit about the changes you've seen in
11 '05 and maybe a leveling off on that, but help me
12 understand, as we look forward here in this case, in
13 terms of both demand and prices because one thing you
14 still see in '05 is that you've been able to maintain
15 price increases. We look at a number of cases,
16 obviously, and a lot of different products, and many
17 of your counsel have been here, but it is always
18 interesting to me when you see a market where you're
19 able to continue to get price increases even when
20 nonsubjects, at this point, were increasing. So it's
21 a market where you see the price for your raw material
22 going up, but you're also recovering prices.

23 So help me understand, looking forward
24 now -- I can see what's on the record in '05 --
25 looking forward in what you believe your industry's

1 reasonably foreseeable future is, I've heard you say
2 you don't think they are sustainable, but help me
3 understand why. Is it demand side? What makes your
4 prices not sustainable? What's going to be different
5 going forward than on the record I see before me?

6 MR. FORBIS: I would say the pressures from
7 the imports are already -- we've seen a loss of volume
8 in 2005. So while we've raised prices because we
9 needed to to cover the raw material costs, we have
10 lost volume and, we believe, market share. So I think
11 our position would be, going forward, we'll be faced
12 with a question of do we lower our prices or hold our
13 prices while material continues to go up in order to
14 try to get some of that market share, or if we
15 continue to raise prices, we'll lose market share to
16 the importers.

17 VICE CHAIRMAN OKUN: The price pressure
18 you're seeing is the price pressure from nonsubjects
19 or -- when you talk about imports, you're talking now
20 about primarily nonsubjects.

21 MR. FORBIS: I think it's both. I would say
22 both, subject and nonsubject imports. Most of what's
23 coming in now is nonsubject.

24 VICE CHAIRMAN OKUN: From the other industry
25 witnesses, Mr. Coulas? Mr. Berger?

1 MR. COULAS: I think that the prices have
2 gone up, but we have also all, I believe, suffered
3 erosion of our market share, and I would just take it
4 to your own homes. If you went to a food store or a
5 clothing store, and you saw something for \$50, and you
6 went to another store with the same product, and it
7 was selling for \$25, where would you go?

8 VICE CHAIRMAN OKUN: Okay. Mr. Berger?

9 MR. BERGER: As I said, much of this was
10 driven by steel but specifically by pipe. Pipe is
11 continuing to rise in price but the increases have
12 slowed down, and part of what was beneficial for us
13 was that we had pipe already in place and were
14 continuing to replace pipe ahead of the next increase.
15 So we were operating on that sort of upward slope that
16 we would get the increased price before the full
17 effect hits us. At some point, and I think that's
18 coming in the near future, the price of pipe will
19 level off or decline. At that point, it's the other
20 way where we go down much quicker than we go up.

21 The other point is that with losing market
22 share, the domestic industry, which is shown by the
23 Commission's figures, it's only a matter of time until
24 some of us say, There is no way that we can continue
25 to sell less and less. We've got to find a way to

1 keep the machines running because that's the only way
2 you can keep a factory making money. So it's only a
3 question of time.

4 The importers, whether they want to be at 20
5 or 30 percent below the domestic price, stay at that
6 same 20 or 30 percent below, so they have had the same
7 increases that we have had, both probably with the raw
8 material as well as increase in the price of their
9 fittings.

10 VICE CHAIRMAN OKUN: Okay. If we can just
11 focus again on demand, looking forward. I've read
12 your briefs and heard your testimony today talking
13 about the mature state of the industry and where you
14 see consumption and some discussion of the lack of new
15 refineries being built and that in the oil and gas
16 that they have extended their maintenance contracts.

17 Can any of you give me a sense of whether,
18 if you look to industry reports that may talk about
19 the future, whether that continues to be the case?
20 I'm curious whether Katrina, the hurricane, or
21 anything else on gas prices and the pressure on
22 refineries in the U.S., changed any of those dynamics
23 and whether you could provide for us any forecasts you
24 look to when you're trying to figure out what demand
25 for your product is because I know what you've put on

1 the record about what happened during this period,
2 but, again, I'm trying to look forward looking and see
3 if there are going to be any changes because of
4 events. Mr. Forbis?

5 MR. FORBIS: I agree that it's a mature
6 market. No, I don't see any of the, as you mentioned,
7 the hurricane or oil prices changing the demand for
8 our product significantly.

9 VICE CHAIRMAN OKUN: I want to hear from the
10 other industry folks, but do you think that's the
11 case, both for your own market and for worldwide?
12 Obviously, in the United States, refineries haven't
13 been built, but that is not the case worldwide.
14 Again, I'm trying to understand both how attractive,
15 because I've heard you keep talking about the
16 attractiveness of the U.S. market, how attractive the
17 U.S. market is vis-a-vis other markets for your
18 fittings.

19 MR. FORBIS: You're saying us selling our
20 fittings to --

21 VICE CHAIRMAN OKUN: Not exporting, but,
22 again, if we're talking about if the orders are
23 lifted, will the subject imports come back into the
24 market because it's so attractive, or will they find,
25 you know, closer to their own natural markets?

1 MR. FORBIS: I wouldn't expect that they
2 would find sufficient demand overseas to absorb their
3 capabilities, no.

4 VICE CHAIRMAN OKUN: Okay. From the other
5 companies, any forecasts? Mr. Berger?

6 MR. BERGER: I would agree with Mr. Forbis
7 basically. The situation you mentioned with the
8 refineries in the Louisiana area; it's way too early
9 to know how much real damage has been done. Yes,
10 there could be some fittings and additional pipe that
11 would have to be put into those facilities. That
12 would be just simply as part of the ongoing
13 maintenance that they do anyway. This would simply
14 increase that potentially for a short period. But
15 that would not have a significant, overall impact on
16 the demand in the United States. It would be very
17 localized to those specific facilities.

18 VICE CHAIRMAN OKUN: Mr. Coulas from
19 Weldbend, anything you would like to add?

20 MR. COULAS: I think we heard on television
21 last night or this morning that most of the refineries
22 are getting back up to speed. I think Marathon was
23 almost 100 percent last weekend, and the Colonial, the
24 pipeline that feeds Washington and New York, I think
25 they have figured that they will be pretty close to

1 100 percent, or close to it, by the end of this week.
2 So I don't think the hurricane has much to do. There
3 are some rigs that were sunk, but that's a long, long
4 time before that would even come around. It would be
5 years before a rig would be built again -- you know
6 what I'm trying to say -- to get the drawings and
7 everything. So I don't think the hurricane has much
8 impact for our industry right now.

9 VICE CHAIRMAN OKUN: Okay. I appreciate all
10 of those comments. I see my red light has come on.
11 Thank you.

12 CHAIRMAN KOPLAN: Thank you. Commissioner
13 Hillman?

14 COMMISSIONER HILLMAN: Thank you, and I,
15 too, would join my colleagues in welcoming all of you
16 here, and we do very much appreciate all of the
17 industry witnesses that have traveled, some of you
18 quite a ways, to be with us this morning. Thank you.

19 I guess, Mr. Zidell, if I can start with
20 you, you were discussing a little bit the issue of low
21 capacity utilization as an evidence of the
22 vulnerability of the industry, and obviously if I look
23 at these numbers as a pure percentage compared to a
24 lot of what we see, I would agree with you; it's a
25 fairly low number. What would the industry feel is a

1 healthy level of capacity utilization? What's
2 realistic? What's achievable that would leave you, in
3 your view, healthy?

4 MR. ZIDELL: I've been in this business now
5 for 30-plus years, and in almost that entire time
6 period we've been confronted with a lot of low-priced
7 foreign competition, and I don't know that we have
8 ever found ourselves at a point where we have found a
9 comfortable percentage of capacity utilization from a
10 profitability standpoint.

11 I know this, that according to the staff
12 report and based on my own knowledge of our facility,
13 we have a substantial amount of unused capacity and
14 would welcome the opportunity to put more people to
15 work and run our equipment more hours and help provide
16 the marketplace with domestically produced product,
17 but we've never been able to quantify what is that
18 right number of an operating capacity, whether it's
19 70, 75, 80. We just haven't been able to do that.

20 COMMISSIONER HILLMAN: When I look at the
21 numbers, one of the things that is sort of odd on this
22 is that the lowest level of capacity utilization was
23 in the first half of 2005, and yet that is the period
24 in our data in which you have the highest level of
25 profitability.

1 MR. ZIDELL: That's correct. I think I can
2 give you a pretty good answer for that, and this sort
3 of is a follow-on answer to a previous question. Our
4 primary raw material is carbon steel seamless pipe.
5 Historically, for years and years and years, the cost
6 of that material to us would not move up or down very
7 much. When there would be an increase, it would be
8 rather modest, maybe 3 to 5 percent, in which case we
9 may or may not be able to or have to raise our prices.
10 But because of the aberration that's taken place in
11 the entire world steel industry, starting in late
12 2003, we've seen our raw material costs go up in
13 excess of 100 percent, maybe even more than 150
14 percent, and with those kinds of increases, it's
15 utterly impossible for any of us to stay in business
16 without passing those costs along.

17 So what's happened is, starting in February,
18 there was a succession of price increases, seven of
19 them, to be exact, between February of '04 and August
20 of '05, and I think it's fair to say for at least our
21 firm and, I'm guessing, for the rest of the industry
22 that the impact of those price increases on what we
23 were charging for our product generally preceded by
24 some amount of time, from a financial-impact
25 standpoint, the impact of the higher cost of raw

1 materials.

2 So while our costs for materials have, in
3 fact, gone up 100 to 150 percent, we've raised the
4 price, but it's been a little bit ahead of the impact
5 of that cost increase. Our shipments for the first
6 half of this year have gone down because of greater
7 import penetration, but we're still operating on raw
8 materials that haven't quite caught up to our selling
9 price.

10 COMMISSIONER HILLMAN: Would others in the
11 industry comment on this issue of what is a healthy
12 capacity-utilization level for this industry? Mr.
13 Berger? Mr. Coulas?

14 MR. BERGER: This is Ken Berger. With most
15 manufacturing companies, you want to have at least 80
16 percent of capacity, I think. Anything above that is
17 where you're really getting value from the machines.
18 As it goes below that number, you've got an awful lot
19 of overhead and an awful lot of sunk cost in the
20 machinery and not getting any real return from it.
21 It, of course, varies by industry and all of that sort
22 of thing.

23 COMMISSIONER HILLMAN: If I look at the
24 data, this industry, at least from what we would see,
25 has never come close to that in the time that I've

1 looked at it, and yet, obviously, you've more or less
2 been profitable throughout this period of review. So
3 is 80 really the number for this industry?

4 MR. BERGER: I can't answer it from that
5 standpoint. Yes, we've been profitable, but are we
6 profitable from a standpoint of justifying the kinds
7 of costs of getting into this kind of business? As we
8 all talked about, the number of companies in this
9 industry has continued to shrink. I think that that
10 is very meaningful that trying to operate at 50, 60
11 percent of capacity, many, many of them, especially
12 the larger ones, have simply disappeared.

13 That's why three out of the four companies
14 that are before you are family owned because the
15 conglomerate kinds of operations have all been out of
16 the business. They simply can't succeed with those
17 low capacities and have said, this business doesn't
18 make sense.

19 COMMISSIONER HILLMAN: Others comment on
20 this area of what's a reasonable level of capacity
21 utilization? Mr. Forbis?

22 MR. FORBIS: I think that 80 is as good a
23 number as there is. We've never operated as high as
24 we would like to. As far as your question on the
25 difference between low capacity utilization and high

1 profitability, I think that is a result of we had raw
2 materials ahead of price increases and that's what you
3 see in the higher profitability even though we were
4 making fewer units in that period.

5 COMMISSIONER HILLMAN: Okay. Then looking
6 forward, again, from the record that we have it
7 appears that you have been able consistently to pass
8 along the cost increases in the form of your own price
9 increases and yet I'm hearing all of you say that's
10 going to come to an end.

11 I guess there's where I want to try to
12 understand if you've been able to do it throughout
13 this period of review what will be different going
14 forward that will not allow this ability to pass along
15 cost increases in the form of raising your prices? I
16 mean, you've done it seven times I hear, so why not
17 eight, nine, 10 going forward?

18 MR. BOGARD: Commissioner Hillman, this is
19 Mr. Bogard. I'll make a couple of points of
20 clarification. One, as Mr. Zidell testified, his
21 price increases that have been allowed by this
22 atmosphere created by the rising pike prices were
23 preceded by three entire years in which he was unable
24 to raise his prices at all, so there has not been a
25 consistent ability to raise prices throughout the POR.

1 The evidence doesn't support that. Also, in
2 looking at the public staff report at Section 3, page
3 8, either at the operating income or net income with
4 respect to your observation the industry's been able
5 to consistently realize profits, a track of the six
6 full years covered in that table, two of them are
7 losses for the industry, three more reflect
8 profitability below a five percent level.

9 If one were to look at the confidential
10 version of the staff report that goes back
11 historically and includes proprietary data as to the
12 industry's profitability during the original
13 investigations the 4.8, 1.7, 6.5 percent levels shown
14 during this POR are substantially smaller than the
15 profitability of the industry in 1990, 1991, 1992 when
16 the Commission made an affirmative determination with
17 respect to China and Thailand.

18 So I don't want you to come away with a
19 sense that the industry has in fact been consistently
20 profitable during this POR because they haven't.
21 They've been barely profitable and even then only in
22 the recent years.

23 COMMISSIONER HILLMAN: I appreciate that
24 answer. I see that the yellow light has come on, so I
25 will come back to trying to understand a little bit

1 more of this issue of price pressures from the
2 nonsubject imports. Thank you.

3 CHAIRMAN KOPLAN: Thank you, Commissioner.
4 Commissioner Lane?

5 COMMISSIONER LANE: Good morning. I'd like
6 to start my questioning with Mr. Zidell. As a matter
7 of fact, I think maybe all of my questions might be
8 for him in the beginning, so you're the lucky one
9 today, Mr. Zidell. Looking at the staff report on
10 Table 3.7 I note an increase in gross profit in 2004
11 and in the interim 2005.

12 This reflects a greater increase in average
13 unit value of net sales than the increase in cost of
14 goods sold. What conditions in the industry account
15 for the ability of the industry to increase net sales
16 value per pound sold more than the cost of goods sold
17 is increasing?

18 MR. ZIDELL: Jay Zidell responding. To the
19 extent that I understand your question correctly I
20 think it all gets back to this phenomenon that we've
21 had these horrific increases in our raw material
22 costs, but there has been a lag time from the time
23 that the increases are implemented by the steel mills
24 and the time we place an order, the mill makes the
25 material and we receive it as compared to when we have

1 implemented our own price increases on our products
2 and we've been able to get that into the marketplace a
3 little quicker.

4 That would account for the more rapidly
5 increasing selling price.

6 COMMISSIONER LANE: Thank you. This is a
7 follow-up question. I have heard today several times
8 about references to raw material cost increases of 100
9 percent. Looking at the same table and you answered
10 that you say that you are talking about a lag issue,
11 would you expect to see the increase in raw material
12 costs shown in the first half of 2005 to continue to
13 increase in 2005 and 2006?

14 MR. ZIDELL: Yes.

15 COMMISSIONER LANE: Do I understand that
16 although we could expect to see somewhat increasing
17 raw material costs in the immediate future that there
18 would not be continuing price increases?

19 MR. ZIDELL: I would not expect to see any
20 further increases.

21 COMMISSIONER LANE: Okay. Go ahead.
22 Finish. I'm sorry.

23 MR. ZIDELL: Well, the nonsubject product --
24 as Mr. Coulas made reference to in some of his earlier
25 comments, for a good part of 2004 there was this

1 almost sense of panic buying by our customers out of a
2 concern of general availability for pipe fitting. As
3 a result of that, all of us experienced this panic
4 buying and people were probably buying more than what
5 they really needed.

6 That demand, that artificial demand has now
7 sort of normalized because product is more available
8 or readily available. At the same time, nonsubject
9 product has been coming in at greater and greater
10 levels.

11 Earlier in this year we did some analysis on
12 a year-to-date basis which indicated for nonsubject
13 countries there was a 100 percent increase year over
14 year for the time period that we looked at on
15 nonsubject countries. That would have probably been
16 for the first three or four months of this year.

17 So what you've got is all of a sudden you've
18 got a vastly greater quantity of product available to
19 the market and at the same time you've got demand
20 actually going down to what would normally be a normal
21 level as opposed to an artificially high level because
22 it was induced because of the panic buying of the
23 preceding year.

24 COMMISSIONER LANE: Okay. I'm going to come
25 back in a minute to the nonsubject imports, but I

1 wanted to ask you, Mr. Zidell, and anybody else that
2 wants answer, although the industry's level of
3 profitability is measured by either operating income
4 ratio to net sales or return on assets is higher in
5 2004 than in any other year reflected in the staff
6 report you referred to the 2000 profits as *modest*.

7 Could you give me your view as to what a
8 reasonable, sustainable return on assets would be
9 given current capital markets, and from your
10 experience is there any benchmark operating income
11 ratio to net sales that you would expect to achieve
12 such a level of return on assets?

13 MR. BOGARD: Commissioner Lane, I think we
14 need to give that question a little thought to give
15 you a thorough answer, and we'll be happy to respond
16 in the posthearing.

17 COMMISSIONER LANE: Okay. Is there anyone
18 else that wants to answer that question?

19 (No response.)

20 COMMISSIONER LANE: Thank you.

21 Mr. Forbis, and perhaps Mr. Graham and Mr.
22 Coulas, if you want to answer, Mr. Forbis you've
23 testified regarding changes in 2005.

24 As you point out, total industry sales do
25 appear to be lower in the first half of 2005 than in

1 the first half of 2004; however, the data also shows
2 that gross profit and operating income of the industry
3 is higher in 2005 than in 2004.

4 I note that according to Table 3.7 in the
5 staff report the industry's cost of goods sold
6 increased in the first half of 2005 as compared to the
7 first half of 2004, yet the average unit value of
8 sales increased more than the increase in cost. Is
9 this data inconsistent with the softening market and
10 competitive pressures that you have described?

11 MR. FORBIS: No. I think, again, we're
12 talking about a timing issue. I think as we go
13 forward in time you will see that normalize, if you
14 will.

15 COMMISSIONER LANE: Now, Mr. Zidell, going
16 back to the nonsubject imports. Right now the
17 domestic industry average unit values are higher than
18 the subject imports and the nonsubject imports. What
19 would you expect to happen if these orders came off to
20 the level of subject imports as opposed to the
21 nonsubject imports?

22 MR. ZIDELL: Jay Zidell. You're asking what
23 I would expect the relation between subject and
24 nonsubject product would be?

25 COMMISSIONER LANE: Where would the domestic

1 industry face -- or if the orders came off would it be
2 the domestic industry that suffered the most from
3 subject imports or would the subject imports perhaps
4 replace nonsubject imports in the U.S.?

5 MR. ZIDELL: My sense is that the domestic
6 industry would take the brunt of the damage. there
7 would be significant pressure on pricing. We're
8 already experiencing that pressure with just the
9 nonsubject product that's been coming into this
10 country. If you were to add the subject countries it
11 would just be unbearable.

12 COMMISSIONER LANE: All of you talked about
13 the increase in raw material costs and how that has
14 affected your industry. Would any of you care to talk
15 about the increase in transportation costs and what
16 that is doing to your industry?

17 Mr. Graham, I saw you smile. Why don't you
18 answer that, please?

19 MR. GRAHAM: Well, it's not going to help.
20 I mean, every time you drive by a gas station --

21 CHAIRMAN KOPLAN: Can you move your
22 microphone closer to you, sir?

23 MR. GRAHAM: Sure. I say every time you
24 drive by a gas station you see the price going up or
25 somebody's flipping one of those numbers on the

1 filling station. Trinity's centered in the middle of
2 the country and we transport east and west off both
3 coasts and that affects us just like it would anybody
4 else we transport the product from.

5 COMMISSIONER LANE: Does Trinity bear the
6 increased cost of the transportation --

7 MR. GRAHAM: Yes.

8 COMMISSIONER LANE: -- or do you pass it
9 along to your customer, or does the customer pay for
10 it?

11 MR. GRAHAM: Customer has -- we provide the
12 transportation to all.

13 COMMISSIONER LANE: Thank you.

14 CHAIRMAN KOPLAN: Thank you, Commissioner.
15 Commissioner Pearson?

16 COMMISSIONER PEARSON: Thank you, Mr.
17 Chairman. Let me extend my welcome also to the panel.
18 I have to confess that I have no direct experience
19 with butt-weld pipe fittings; however, I spent a
20 number of years working for a major U.S. manufacturing
21 company and been in quite a number of plants.

22 I have really admired not so much the
23 fittings because you know you're in a plant, all you
24 see is the elbow takes it around the corner, but I've
25 admired the welds. I gave up welding a couple of

1 decades ago. If you can't weld, become a Commissioner
2 I guess.

3 So I see what your products are doing. Even
4 though I've not held them and looked at them directly
5 I've seen them in place. I did actually have
6 questions here, too.

7 Mr. Forbis, you in your prepared statement
8 cast a lot of, well, you indicated that in 2005 the
9 operating environment is getting worse, the market is
10 becoming more challenging. Were your comments focused
11 on the industry in general or more specifically on
12 Trinity?

13 MR. FORBIS: Well, my comments are as it
14 relates to Trinity, but I suspect it's domestic
15 industry-wide.

16 COMMISSIONER PEARSON: Some of my colleagues
17 have already touched on this, but you're aware that we
18 have data that take us through the first half of 2005,
19 through the end of June and in looking at these
20 numbers I can see part of what you're talking about
21 because the quantity sold is not quite what one might
22 wish, but as we look at the financial indicators I
23 reach the conclusion that if these are hard times give
24 me more of them. Could you comment, please?

25 MR. FORBIS: Okay. In early 2004 is when we

1 started raising prices. It's been mentioned that
2 there's been seven increases and I think you'll find
3 five of those were all in 2004, so while raw material
4 has continued to go up there's kind of two things.

5 2004 had this scarcity concern. There was
6 more buying than there was demand, there was a concern
7 about that so there was additional buying, so I think
8 there was a more willingness to accept higher prices.
9 We've already seen that erode in 2005 by just the fact
10 that there has not been anywhere near the number of
11 increases in this year as there was last year.

12 I think as Mr. Zidell said even though
13 material continues to go up, based on what's happened
14 this year and the way the markets reacted to increases
15 that we've already put through I don't expect we will
16 be able to raise our prices further.

17 So the enhanced financial results are the
18 benefit of us having the raw material ahead of at a
19 lower price while we raised our fitting selling price
20 and as that worked its way out, you know, the timing
21 where we're buying material possibly even higher than
22 today and still selling fittings at this current price
23 you'll see those financial results come back to a more
24 historical level.

25 COMMISSIONER PEARSON: So if you had to go

1 out and by a seamless pipe today to make fittings how
2 would that compare in price to a year ago, September
3 2004?

4 MR. FORBIS: Close to 100 percent increase.

5 COMMISSIONER PEARSON: Well, that's
6 noticeable.

7 MR. FORBIS: Yeah.

8 MR. BOGARD: Commissioner Pearson?

9 COMMISSIONER PEARSON: Yes?

10 MR. BOGARD: This is Mr. Bogard. If I could
11 follow-up on that response briefly because all of the
12 Commissioners seem to be interested in this issue. I
13 want to try to paraphrase what my clients told me when
14 I asked them the same question in preparing for this
15 hearing, and then as I sort of miss the mark hopefully
16 they'll correct me.

17 All of them have explained how this lag in
18 the inventory acquisitions has affected profitability
19 on the rising side, that they've been able to raise
20 the prices for their product in anticipation
21 essentially of increased raw material costs.

22 What my clients explained to me is even if
23 you place an order for the seamless pipe that you need
24 it will take a number of weeks, if not months, for
25 that order to be filled you don't incur an inventory

1 cost for that seamless pipe until the time it's
2 delivered.

3 In the meantime, you have been selling your
4 pipe fittings so that as the price of the pipe
5 fittings rises your raw material costs are lagging
6 behind, you're seeing an increase in profitability.

7 What will happen when prices flatten out or
8 stabilize is the inventory costs for the raw materials
9 will continue to rise and not only will it catch up,
10 but the concern of the industry is that the raw
11 material cost will then surpass the price increases
12 for the pipe fittings.

13 If the pipe fittings prices decline or can't
14 rise any further, then the inventory costs at that
15 point will squeeze profitability in the industry and
16 in fact will squeeze profits at an accelerated rate.
17 To paraphrase Mr. Zidell when he explained this to me
18 yesterday, you see a benefit on the ride up, but it's
19 a very ugly ride down.

20 I hope that was helpful, and if you all have
21 something to add to that? Thank you.

22 COMMISSIONER PEARSON: No doubt all firms
23 are managing their inventory of pipe as closely as
24 possible in anticipation that the price for the
25 products may go down.

1 MR. ZIDELL: If I might just add another
2 comment to that? Jay Zidell, for the record. Our
3 product being seamless pipe is probably the only steel
4 commodity that I know today that is continuing to go
5 up in price. We have seen moderation, even downward
6 pricing trends in other types of steel commodities.

7 Seamless pipe is the lone exception to that
8 and there's a really sound reason for it. Not sound,
9 but there is a reason for it.

10 That reason is that it is the same product
11 that's used for oil country tubular goods, which with
12 the price of gas at over \$10 1,000, with the price of
13 oil at, I don't know what it is today, \$65 a barrel,
14 the exploration side of the energy business is
15 blistering and they are using a tremendous volume of
16 oil country tubular goods.

17 Our raw materials are essentially coming off
18 the same mills, and the mills have been able to
19 continue to raise the price in oil country tubular
20 goods and we just sort of get our raw materials sucked
21 up into that same phenomenon. If they can charge more
22 money for the oil country tubular goods they're going
23 to charge us more money as well.

24 COMMISSIONER PEARSON: Okay. Fair enough.
25 That same phenomenon of strong demand for oil country

1 tubular goods, it's a world-wide issue no doubt, so
2 would it not affect all manufacturers of butt-weld
3 fittings in roughly the same way?

4 MR. ZIDELL: Again, Jay Zidell. As we've
5 seen repeatedly the subject countries have over the
6 years not focused their price structure in this
7 country so much on their cost as much as they've
8 focused it on a strategy of maintaining market share
9 in the U.S.

10 That's been evidenced through the dumping
11 cases that have been brought in the past.

12 COMMISSIONER PEARSON: Okay. Looking
13 forward the question already has been raised about the
14 affects of hurricane Katrina and I would agree with
15 the response that basically it's too early to know
16 what influence if any it might have on total
17 consumption, but certainly the potential would be for
18 increased demand as plants are maintained or rebuilt
19 rather than any decrease.

20 Would that be correct? The potential is on
21 the upside in terms of demand, right?

22 MR. FORBIS: I would say there's two things
23 to that. It's likely that the demand on any damage
24 would be in size of fittings that are not in this
25 orders. In other words, they would be the larger than

1 14 inch size. The other part of that is a lot of the
2 platforms and that are my estimation predominantly
3 import fittings.

4 COMMISSIONER PEARSON: Any other comment on
5 that?

6 (No response.)

7 COMMISSIONER PEARSON: Mr. Chairman, the
8 light's changing, so I will pass. Thank you.

9 CHAIRMAN KOPLAN: Thank you, Commissioner.
10 Mr. Zidell, if I remember correctly in
11 response to a question from Commissioner Lane you
12 mentioned that you've done some kind of a study or
13 analysis of nonsubjects. Is that correct?

14 MR. ZIDELL: That's correct, sir.

15 CHAIRMAN KOPLAN: Could you provide that to
16 us for the record if you haven't already done so?

17 MR. ZIDELL: We'll be happy to do that.

18 CHAIRMAN KOPLAN: Would you do that? If you
19 could do that with your posthearing submission that
20 would be appreciated.

21 MR. ZIDELL: Certainly.

22 CHAIRMAN KOPLAN: Thank you. I'm still
23 struggling a bit with this one thing. I'm trying to
24 understand why nonsubject imports have taken such a
25 substantial market share in 2005. I'm looking at a

1 table that appears on I, page 25 of our staff report
2 and the version I have is the confidential version,
3 but the numbers I'm going to cite to you are not
4 confidential.

5 What I'm looking at is nonsubject market
6 share of U.S. producers' shipments. When I say
7 *nonsubject* I'm not referring to Thailand, I'm not
8 referring to any of the five countries, okay, that
9 we're looking at. In the interim period, the sixth
10 month period comparing 2004 to 2005 the percent jumps
11 from 28.9 to 43.2 percent and that's share of quantity
12 by percent.

13 The share of value by percent jumps from
14 21.4 percent to 32 percent. What I'm trying to
15 understand is what their market dynamic is right now.
16 Aren't they subject to the same rising raw material
17 costs that you all are subject to? If they are,
18 what's driving that kind of an increase because it's
19 way beyond what I'm looking at elsewhere in the
20 period. Can someone help me out with this?

21 MR. ZIDELL: Jay Zidell, again.

22 CHAIRMAN KOPLAN: Yes.

23 MR. ZIDELL: I guess my response to that
24 would be that these nonsubject producers, as the
25 subject producers do, view the United States being the

1 largest market for fittings in the world as a key
2 strategic market that they have to be in.

3 CHAIRMAN KOPLAN: Now, that's in your
4 briefs. I've seen that.

5 MR. ZIDELL: Okay. They don't necessarily
6 take into regard the cost increases in an effort to
7 maintain market share.

8 CHAIRMAN KOPLAN: They've gone way beyond
9 maintaining market share. All of a sudden in 2005
10 they've jumped off the chart so to speak --

11 MR. ZIDELL: That's correct.

12 CHAIRMAN KOPLAN: -- and that's what I'm
13 trying to understand. What happened in 2005 to cause
14 that? What's the dynamic here? You're saying they're
15 subject to the same raw material price increases that
16 you all are. Am I understanding that they're faced
17 with that same problem?

18 MR. ZIDELL: That's correct.

19 CHAIRMAN KOPLAN: Okay. If that's the case,
20 what's the dynamic in the first six months of 2005
21 that's compared to the first six months of 2004 that's
22 caused this dramatic increase?

23 MR. FORBIS: My answer would be that they've
24 always maintained this gap if you will of say 20, 30
25 percent of what they sell at below us and as our

1 prices have gone up I think there's been more interest
2 domestically from purchasers to consider import
3 because of the price. So that has probably driven
4 some buyers in the U.S. to take more --

5 CHAIRMAN KOPLAN: I'm looking at nonsubject,
6 excuse me, I'm looking at fairly traded, right?

7 MR. FORBIS: Yeah. True.

8 CHAIRMAN KOPLAN: Okay. Go ahead.
9 Continue. I'm struggling with it.

10 MR. FORBIS: I think the other thing is it's
11 possible that the nonsubject may not be having as much
12 of an increase on raw material as we've seen
13 domestically. I don't know that for sure, but I
14 suspect that may be true.

15 CHAIRMAN KOPLAN: Is there any way to
16 quantify that because I'm looking at numbers and I'm
17 wondering if there's any way to quantify it.

18 Ms. Ellsworth?

19 MS. ELLSWORTH: This is Cheryl Ellsworth. I
20 think that if there had been anybody that showed up on
21 the other side you could have asked them that
22 question.

23 CHAIRMAN KOPLAN: Well, I would have, but
24 you're here, so I'm asking whether you all have any
25 idea of what's going on.

1 MR. FORBIS: I don't think we have a means
2 of verifying that. No.

3 CHAIRMAN KOPLAN: Okay.

4 MR. ZIDELL: If I might?

5 CHAIRMAN KOPLAN: Yes, Mr. Zidell?

6 MR. ZIDELL: I think maybe part of the
7 answer lies here. In 2004 there was this panic buying
8 syndrome that was referred earlier.

9 CHAIRMAN KOPLAN: That's in your brief as
10 well.

11 MR. ZIDELL: Okay. All of us have customers
12 who buy domestic as well as import product. Import
13 product has a tendency to have a longer lag time in
14 terms of the delivery from order to shipment date, it
15 could be as long as six months, and during that panic
16 buying period our customers were placing large orders
17 with us and I suspect they were also placing large
18 orders with foreign suppliers.

19 Maybe what we're seeing in these statistics
20 is a wave of that panic buying of the foreign products
21 that are hitting the shores now just because of the
22 extended delivery times of the foreign producers.

23 CHAIRMAN KOPLAN: Does Weldbend probably
24 want to jump in on this as well?

25 MR. KRIESBERG: Simeon Kriesberg. A couple

1 of explanations that have occurred to us. One is that
2 although the rise in raw material cost has been an
3 international phenomenon there are many costs embedded
4 in the foreign producers' structure that are nowhere
5 close to what a domestic producer has to face.

6 We're talking about regulatory costs, we're
7 talking about health insurance costs and other costs
8 so that there is always a gap in the cost structure.
9 So they start with a much lower cost structure than we
10 do and then they're --

11 CHAIRMAN KOPLAN: That's remained a constant
12 during our period hasn't it?

13 MR. KRIESBERG: Well, we're not really sure.
14 My point is that even if their raw material costs have
15 risen to some degree as ours certainly have in the
16 latest year or so they've started from a lower point
17 to begin with, so they have a considerable amount of
18 room to undersell and as the Commissioner report
19 indicates they have been underselling throughout this
20 period.

21 So what you have in the U.S. market now is
22 in part because of this panic buying and in part
23 because of the price increases to cover the raw
24 material costs, a historically very high level of
25 pricing, and it makes the appeal of these lower priced

1 imports, subject or nonsubject, all that much greater
2 in terms of domestic customers.

3 CHAIRMAN KOPLAN: Is there any way you can
4 quantify that for me for purpose of the posthearing?

5 MR. KRIESBERG: Well, we can try, but I
6 think the evidence is simply the tremendous shift in
7 shipment levels from the domestic suppliers to the
8 foreign suppliers that we have seen in this stub
9 period, that as I think all the producers have
10 testified the price increases that have been in place
11 and which have tended to lead costs upward so there
12 has been some improvement in profitability has been at
13 the expense of market share and sales in 2005.

14 So we're already beginning to see that
15 cannot be sustained if they expect to be able to
16 regain their sales volumes of only a couple of years
17 back. The result is that what we all anticipate from
18 the testimony is that we're going to see now the
19 prices leading the costs down so that you'll find a
20 foreshortening of the gap between the pricing and the
21 costs on the way down.

22 CHAIRMAN KOPLAN: Thank you.

23 Mr. Graham, you look like you wanted to get
24 in on this. Have you changed your mind?

25 MR. GRAHAM: I'm just looking at the cost of

1 the labor.

2 CHAIRMAN KOPLAN: And?

3 MR. GRAHAM: There's no comparison. As low
4 as a \$1, \$1.12 in some countries, and we'd probably be
5 \$25 and that would be low in a domestic plant.

6 CHAIRMAN KOPLAN: Well, did that dynamic
7 change in 2005 or has that always been the same?

8 MR. GRAHAM: Always there.

9 CHAIRMAN KOPLAN: It's always been there.

10 MR. GRAHAM: It gives you a big spread of a
11 profit margin.

12 MR. TOTARO: If I could add just one point,
13 Mr. Chairman?

14 CHAIRMAN KOPLAN: Sure.

15 MR. TOTARO: This is John Totaro. It's
16 difficult to quantify, but maybe one comparison that
17 you could look at in the staff report are the
18 comparison between the unit values of what's
19 identified here as nonsubject imports and the unit
20 values of the U.S. shipments.

21 You'll see that the nonsubject imports show
22 an increase in the first half of 2004 to the first
23 half of 2005 as do domestic shipments, but that
24 imports are on a different scale, a much lower scale,
25 indicating that maybe they are experiencing some

1 increases in raw material prices perhaps, but as other
2 witnesses have said they're overall costs are
3 different to start with.

4 CHAIRMAN KOPLAN: I appreciate that. Thank
5 you. I see my red light's on.

6 Vice Chairman Okun?

7 VICE CHAIRMAN OKUN: Thank you.

8 Mr. Totaro, maybe since you had just
9 responded to that question in terms of this product
10 and looking at average unit value is it a good proxy
11 for looking? Should we be looking at average unit
12 value in terms of what might be a product mix issue
13 either between domestic and foreign or rather just
14 help me understand a little bit more how much weight I
15 should put on AUV's here.

16 MR. TOTARO: Well, I think you're right. I
17 think because there is this scope of this
18 investigation that the order covers a wide range of
19 sizes I think that it's difficult to place too much
20 weight on average unit values, but that said, if the
21 Chairman is looking for one indication, something on
22 the record, some number, that's what I've pointed at
23 for that reason.

24 VICE CHAIRMAN OKUN: Well, okay. How about
25 in terms of just more generally about the nonsubjects?

1 Some information I think that some of you have put on
2 the record, but in terms of the nonsubjects main
3 competition. Are we looking at Mexico? I mean, who
4 do you see pressure from if you're saying you've got
5 pressure and that's why the record is reflecting a
6 move towards the nonsubjects?

7 Do you have any sense of that in terms of
8 which nonsubjects, or particular countries?

9 MR. FORBIS: Yeah. I would say you
10 mentioned Mexico is one, Malaysia and probably Korea.

11 VICE CHAIRMAN OKUN: That's shaking hands.
12 Anyone else out there from the industry have anymore
13 sense of that?

14 MR. COULAS: Weldbend Corporation. We agree
15 completely with that.

16 VICE CHAIRMAN OKUN: Mexico, Malaysia --

17 MR. COULAS: Mexico, Malaysia and Korea.

18 VICE CHAIRMAN OKUN: -- and Korea. Okay.

19 Mr. Zidell, I had written down in my notes I
20 think during your testimony, although it could have
21 been a response to the question you mentioned that
22 customers were, I think your words were *beginning to*
23 *resist price increases*. Does that sound familiar?

24 MR. ZIDELL: Yes, ma'am, it does.

25 VICE CHAIRMAN OKUN: I had gone back to look

1 at the phrase again. Is there anything concrete that
2 you can point to in terms of have you seen customers,
3 anything you can give to us specifically where
4 customers have said no, we won't? No price increase.

5 MR. ZIDELL: I can't report to you any
6 firsthand conversations I've had with customers, but
7 my sales people have reported to me that because of
8 the price increase the domestic industries have
9 implemented it's putting their customers under much
10 greater pressure and our customers are getting
11 pressure from their customers to seek cheaper
12 products.

13 That's why we believe we're seeing in part
14 this increased market penetration by the foreign
15 products. We also went through a period of time just
16 this last summer two or three months ago when there
17 had been efforts to raise prices by domestic producers
18 and largely based again on rapidly increasing costs of
19 raw materials and I will tell you that we were the
20 last producer to raise our prices.

21 It was only, well, let me say very
22 substantially driven by our concern of the growth in
23 import that we see, and that every time we raise our
24 price even though we need to do it it just makes the
25 delta bigger and makes our market more attractive to

1 the foreign suppliers.

2 VICE CHAIRMAN OKUN: Then let me just go
3 back. I've been trying to look and I'm not sure of
4 whether to put this to counsel because I know for
5 industry you're sometimes reporting your financials,
6 and you're telling us your story and I'm just trying
7 to make sure that I understand that.

8 When I look at the charts I understand what
9 you're saying about the lag between the raw material
10 you have in inventory being a lower price than the
11 increased price you're able to sell it for. I
12 understand that, but when I look at how we gather our
13 data and if I look at 2004, again, and see what
14 happened to raw material help me understand.

15 The lag, is it beyond 2004? In other words,
16 what I'm saying is if I look at 2004 I see that you've
17 reported increased raw materials. You can see it in
18 our numbers that your raw material costs went way up,
19 but we can still see what happened on the financial,
20 so I'm trying to understand what your argument is with
21 the lag.

22 That 2004 doesn't really reflect what you're
23 feeling in 2005 raw material costs? Do you understand
24 my question? I'm just trying to understand. I keep
25 hearing you talk about lag, but I'm trying to look at

1 the information that was gathered and say, okay, I can
2 understand the lag as you sell each fitting, but in
3 the overall year I still see prices have gone up and
4 they've more than covered your raw material price
5 increases, is the way I would look at it.

6 MR. BOGARD: Commissioner, this is Lawrence
7 Bogard. I'm not positive I understand the question
8 because the time period, the POR is divided into
9 calendar years so we've taken a continuum and we've
10 sliced it up into finite periods for the sake of
11 having a point at which to measure.

12 The lag in the inventory value or cost, the
13 raw material cost and the pricing is as I say a
14 continuum. So what's happened is we're looking at a
15 snapshot of something that's an ongoing phenomena. So
16 if I understand your question correctly the lag affect
17 continued on into the first half of 2005 so that the
18 data that you're seeing in the staff report reflects
19 that lag all the way through the POR.

20 What the industry witnesses have been saying
21 is that as prices do not increase or decline and
22 inventory costs catch up then after the cut off point
23 in the POR you're going to start seeing the rebound
24 affect of profitability that you saw in the last part
25 of the POR.

1 VICE CHAIRMAN OKUN: You're talking about
2 then beyond the interim even 2005 data --

3 MR. BOGARD: Absolutely.

4 VICE CHAIRMAN OKUN: -- that you would be
5 looking to or that would reflect that? Okay.

6 MR. BOGARD: Yes. That's correct.

7 VICE CHAIRMAN OKUN: That's what I was
8 trying to understand about that. I appreciate that.
9 I know Commissioner Hillman talked in length in about
10 capacity utilization, so I think I understand all your
11 answers on that. I don't have anything further with
12 regard to that.

13 I think my final question will be with
14 regard to vulnerability and how the Commission looks
15 at this record.

16 Again, it relates to a number of things
17 we're talking about, which is if in a review I'm
18 looking at the end of the period and seeing improved
19 financial reports, and again, understand the argument
20 you've made regarding the improved financials come at
21 a cost in terms of your volume, but looking at what I
22 typically look at in other, I mean, looking at
23 everything that relates to vulnerability help me again
24 understand how if I'm looking at this record and
25 saying what you've managed to do is pass on price

1 increases sufficient to cover cost goods sold, at
2 least on the record we have, why should I find the
3 industry vulnerable to subject imports at this point
4 based on the data in the latest part of the review?

5 MR. TOTARO: This is John Totaro. Just to
6 add one other point to that continuum there is that in
7 2005 where we see decreased volumes of U.S. shipments,
8 but also higher levels of profit, also in 2005 you see
9 levels of imports much higher than in 2004. So it's
10 not only that domestic producers are selling less, but
11 there are more imports in the market or more imports
12 gaining market share, so --

13 VICE CHAIRMAN OKUN: Nonsubjects gaining
14 market share, --

15 MR. TOTARO: Right.

16 VICE CHAIRMAN OKUN: -- less expenses on
17 financials.

18 MR. TOTARO: At the moment, but as the
19 witnesses have testified this is not something that
20 can keep going on. The volumes of domestic shipments
21 continuing to go down, I don't think that will
22 continue to result in improved financials. I think
23 that this is a trend nearing the top and that
24 something will have to change as I've said.

25 VICE CHAIRMAN OKUN: My yellow light's come

1 on, so my last question will just be for posthearing
2 and that is, it probably relates to one of the first
3 questions I had which is anything you can put on the
4 record with regard to both future demand and future
5 raw material prices because, again, while it's
6 uncertain what the economic impact of the hurricane is
7 there's certainly stories even in today's clips in the
8 *Wall Street Journal* talking about still prices going
9 up again, and so I am interested in the best industry
10 data you have available that you could put on the
11 record with regard to future demand, future raw
12 material prices for your industry.

13 Again, I appreciate all the information
14 you've provided today. Thank you.

15 COMMISSIONER PEARSON: Thank you.

16 Commissioner Hillman?

17 COMMISSIONER HILLMAN: Thank you. I'd like
18 to talk just a little bit about some of the nonprice
19 issues that may be affecting it.

20 If I can start with you, Mr. Graham, I
21 believe you testified in your opening statement that
22 the distributors basically stock imported product,
23 domestic product, et cetera, and that where the U.S.
24 industry may continue to have some edge is in the
25 produced order sort of specialty goods.

1 Did I hear that correctly, and can you help
2 me understand what portion of your sales would be of
3 that nature? It's a produce to order kind of fitting.

4 MR. GRAHAM: I don't know that we have a
5 produce to order special item process. I mean, we
6 have a stocking level that we guess at and that's what
7 we go with.

8 COMMISSIONER HILLMAN: So you're saying
9 nobody produces anything that would be considered sort
10 of produced on the order of specialty products unique
11 in any way? Everything is a stock item, distributors
12 are going to buy yours and everybody else's same
13 thing?

14 MR. GRAHAM: We have a grouping of fittings
15 and that's what we look at month over month to see
16 what is in demand and outside of that is an order from
17 a customer that wants something different, which is a
18 different process.

19 COMMISSIONER HILLMAN: Okay. So there is
20 some that's specifically ordered?

21 MR. GRAHAM: Yes. I would say in the 14
22 inch and down, which is what we're talking about in
23 this, there really is no special orders. It would all
24 be a make the stock and our customers, the
25 distributors, would sell some stock in these size

1 range.

2 COMMISSIONER HILLMAN: Anyone else?

3 Everything is a stock item.

4 MR. TOTARO: Just to clarify I think it was
5 Mr. Graham that was saying in his opening statement it
6 was not an issue of different products being provided,
7 but there may be occasions where timing is an issue.

8 COMMISSIONER HILLMAN: Then, Mr. Zidell, you
9 comment on the issue of the manufacture lists. Again,
10 I'm trying to just make sure I understand how widely
11 used they are. Does every distributor, every customer
12 want to make sure that the manufacturer is on an
13 approved list or is it some portion of the industry
14 for whom that's a significant factor?

15 MR. ZIDELL: Jay Zidell responding. The
16 approved manufacturers list actually comes out of the
17 end user marketplace not the distributor, who is our
18 customer. Principally where you see approved vendors
19 lists is in the energy sector: oil companies,
20 refineries, chemical plants and what have you where
21 you've got extraordinary risks for failure.

22 COMMISSIONER HILLMAN: So would you have a
23 sense of what portion of the pipe fitting sold are
24 required to be on these manufacturers approved lists?

25 MR. ZIDELL: We've tried to figure that out

1 for years and it's very tough because our customers,
2 they may sell to Exxon, they may sell to Conoco, but
3 they can sell to the local sewage treatment plant, a
4 high-rise being built and it becomes a fungible
5 inventory for our customers.

6 COMMISSIONER HILLMAN: Okay. Now, I think
7 you mentioned that for sure all the Japanese and the
8 Taiwanese producers are on these manufacturers
9 approved lists?

10 MR. ZIDELL: I'm sorry. I missed your
11 question.

12 COMMISSIONER HILLMAN: I'm trying to make
13 sure I understand whether all of the subject producers
14 have qualified for these manufactured approved lists.
15 I thought I heard you say that the producers in Japan
16 and Taiwan had, I wasn't certain whether anyone had
17 said whether the producers in Thailand, or China, or
18 Brazil are all on this manufactured approved list.

19 MR. BOGARD: Commissioner Hillman, I think
20 the testimony was manufacturers in Japan and at least
21 some in Thailand. I think his testimony was subject
22 manufacturers including.

23 We do not have further information in our
24 prehearing brief with respect to approved vendor
25 lists, but I believe at least one of the other

1 industry members in their prehearing brief did append
2 some approved vendor lists to their brief and I think
3 you could turn there.

4 MR. TOTARO: This is John Totaro. We
5 provided one list in our prehearing brief as an
6 example. From talking to Trinity I know there are
7 several out there. We wanted to give an example.

8 I think from what I believe Chris Forbis was
9 saying earlier is that the impact of these lists is
10 very limited both in terms of purchasers who would be
11 consumers who are bound by the list, many are not, and
12 that may have come from another witness today. So I
13 think the overall sense of the industry is that this
14 did not have a very significant limiting impact on
15 which fittings are purchased by which customer.

16 COMMISSIONER HILLMAN: Okay. Would everyone
17 agree with that, that the lists are not significant to
18 the purchasers?

19 MR. FORBIS: Yes, I would, and I would also
20 say to your point I think the countries we're talking
21 about are on a lot of these approved lists.

22 COMMISSIONER HILLMAN: The Chinese as well,
23 the Brazilians?

24 MR. FORBIS: I don't know about China, but
25 the others would be. I haven't personally seen China

1 on a list. No.

2 COMMISSIONER HILLMAN: Okay. Now, you also
3 obviously touched on the issue of the standards. I
4 presume that the Chinese do meet the relevant -- I'm
5 sorry I don't remember the agency doing the standards
6 in this industry, NSPS, or NEIS, or whoever they are,
7 are the standards for these parts are the Chinese
8 again meeting those standards, the basic ASTM I guess
9 it is standards?

10 MR. FORBIS: Yes.

11 COMMISSIONER HILLMAN: So none of the
12 subject producers would not be able to meet the
13 relevant standards, which is the issue of whether they
14 are or not on a manufacturers approved list?

15 MR. FORBIS: That's correct.

16 COMMISSIONER HILLMAN: What I'm hearing is
17 the Chinese may not be, but the understanding is most
18 of the rest of the subject producers are.

19 MR. FORBIS: Yes.

20 COMMISSIONER HILLMAN: Okay.

21 MR. BERGER: This is Ken Berger.

22 COMMISSIONER HILLMAN: Yes, Mr. Berger?

23 MR. BERGER: You cannot sell a butt-weld
24 fitting in this country if it doesn't indicate that it
25 meets the ASTM fitting specification. When you get

1 into contractors what they're going to tend to do is
2 to find whatever meets that specification at the
3 lowest price. Now, does that fitting actually meet
4 it?

5 As you well probably recognized, when you're
6 dealing with low-bid contracts all they want is that
7 it says yes, I meet the specification. As to China,
8 as we mentioned in our testimony Chinese pipe in the
9 west coast has now gotten onto some of the approved
10 lists for oil companies.

11 If they are going to accept Chinese pipe
12 that's what the fittings are made out of, so if China
13 were to be free to bring stuff into this country
14 without the dumping duties there's no question in my
15 mind that they would start getting on the approved
16 lists.

17 COMMISSIONER HILLMAN: Okay. I appreciate
18 that. The other issue I was curious about was third
19 country pricing.

20 A number of you have touched on the relative
21 attractiveness of the U.S. market vis-a-vis other
22 markets, but I'm trying to make sure I understand from
23 your perspective whether in fact the U.S. is the high-
24 priced market or how do prices here compare with
25 prices in Asia, prices in Europe, prices in other

1 markets for these fittings?

2 Do you have any data or information that
3 would tell us where we stand vis-a-vis prices in some
4 of the other major markets?

5 MR. COULAS: Weldbend Corporation. I
6 checked a few weeks ago and our prices are higher than
7 in England, and in France and in Italy.

8 COMMISSIONER HILLMAN: When you say you
9 *checked*, who do you check with to find this out?

10 MR. COULAS: We have friends in the business
11 over in Europe.

12 COMMISSIONER HILLMAN: So U.S. price is
13 higher than European prices?

14 MR. COULAS: What I am told. Yes, ma'am.

15 COMMISSIONER HILLMAN: How would we stand
16 vis-a-vis Asian prices?

17 MR. COULAS: I didn't check those, but I
18 would imagine we're higher than there. If we're
19 higher than Europe we'd be higher than Asia.

20 COMMISSIONER HILLMAN: Obviously, we read
21 and hear a lot about the booms within China in terms
22 of energy production, chemical production, et cetera.
23 Is the Chinese demand going to be such that it will
24 take in more of all of the Chinese production of these
25 fittings and/or other Japanese, Taiwanese fittings?

1 MR. BERGER: This is Ken Berger. I wish the
2 answer were yes, but you're right. Everybody talks
3 about China and bringing all the steel in, but China
4 is still selling pipe into this country today and has
5 throughout this entire period and so have a lot of
6 other products.

7 Part of that is the Chinese government
8 encourages their producers to always keep contact with
9 the outside world, so at the same time their producers
10 are sending pipe or fittings out of the country
11 they're also importing from other places similar pipe
12 and fittings.

13 COMMISSIONER HILLMAN: If there is anything
14 on this issue of third country pricing that any of you
15 can put on the record just to help us understand from
16 your perspective where the U.S. prices stand, again,
17 vis-a-vis prices in China, in the other Asian markets
18 or within Europe, I've obviously heard your testimony,
19 Mr. Coulas, but if there's anything in terms of actual
20 numbers to give us some sense of where the U.S. prices
21 stand vis-a-vis these third country prices I think it
22 would be very useful. Thank you very much.

23 MR. KRIESBERG: Just one quick point,
24 Commissioner Hillman, on your question about whether
25 Chinese market growth would soak up its own

1 capabilities.

2 According to the data that the Commission
3 obtained, and I'm looking at the table on page IV-8,
4 the Chinese exports to the world have been growing
5 dramatically just in the last few years in which we've
6 heard all these stories as you have about Chinese
7 internal growth, so apparently it is not soaking up
8 anywhere near the capacity this has.

9 COMMISSIONER HILLMAN: I appreciate that
10 response. Thank you very much.

11 CHAIRMAN KOPLAN: Thank you, Commissioner.
12 Commissioner Lane?

13 COMMISSIONER LANE: Thank you, Chairman
14 Koplan.

15 I'd like each of the companies represented
16 here today to answer these questions and you can
17 either do it on the record or posthearing, whichever
18 you prefer. The question relates to your inventory
19 valuations accounting. Do you use LIFO, FIFO or
20 average cost for valuing your raw material use in
21 inventories, and have there been any valuation
22 methodology changes since 1999?

23 MS. ELLSWORTH: Trinity will provide that
24 information in the posthearing brief.

25 MR. BOGARD: Tube Forgings and Mills will

1 provide in the posthearing.

2 MR. KRIESBERG: As will Weldbend.

3 COMMISSIONER LANE: Okay. Thank you. Now,
4 my second question is on a tonnage basis and as a
5 percentage of annual volumes of steel in your product
6 what is the normal level of your raw material
7 inventory, and is that number shifting downward in
8 recent years or months?

9 MR. BOGARD: Mills and Tube Forgings will
10 answer in posthearing.

11 MR. TOTARO: Trinity will as well.

12 MR. BOGARD: And Weldbend.

13 COMMISSIONER LANE: Okay. Thank you.

14 Mr. Graham and anyone that would like to
15 respond, in responding to Chairman Koplan you referred
16 to labor as being a big difference between your
17 operations and foreign producers; however, looking at
18 the industry's cost components as shown on Table 3.7
19 of the staff report I see that direct labor is a very
20 small part of production costs, only about 10 percent.

21 Would this relatively low direct labor
22 reflect mechanization, computerization, robotics or
23 other efficiencies or substitutes for labor intensity
24 and operations of the domestic industry, and if so,
25 how does that compare to foreign operations?

1 MR. GRAHAM: I wouldn't know that much about
2 foreign operations, but I'm looking at and reading
3 about China all the time and that's where I start with
4 the lowest of the low. They're getting ready for the
5 olympics, they're building up, they've brought steel
6 mills across the water, picked them up here in the
7 United States, whole steel mills, and flooded them
8 across the water.

9 When I read the article I was staggered by
10 the cost of the labor. It's \$1.12 an hour. Our costs
11 are \$25, to \$35, to \$40 depending on the process.
12 That's a big difference.

13 MS. ELLSWORTH: Commissioner Lane, if I can
14 also add it may be that for Trinity the percentage
15 relation of direct labor to overall cost is higher
16 simply because of the nature of their production as
17 compared to some other producers, so Don may have a
18 slightly different view of that than others would.

19 COMMISSIONER LANE: Does anyone else care to
20 respond?

21 (No response.)

22 COMMISSIONER LANE: My next question is, and
23 this goes back to the earlier question I asked in the
24 first round to Mr. Graham, could you provide us with
25 what portion of your costs were transportation related

1 in 2003, and then 2004 and then in the current period
2 in 2005? The staff report says that transportation
3 costs were less than five percent of the total
4 delivered costs.

5 I'm just sort of curious as to whether or
6 not you have seen as everybody else has seen an
7 increase in transportation costs and how that has
8 affected your business.

9 MR. GRAHAM: We can provide it for you I
10 think.

11 COMMISSIONER LANE: Okay. What about the
12 other companies?

13 MR. ZIDELL: Jay Zidell. I would say that
14 we've probably seen somewhere between a 25 to 35
15 percent increase in our freight costs, but it's
16 actually become a lower percentage of sales because
17 our selling price has gone up at a rate in excess of
18 what the transport costs have.

19 COMMISSIONER LANE: Thank you. I know that
20 you've been asked about the affects of hurricane
21 Katrina and everybody's been focusing on the
22 refineries, but as I understand your product it is
23 used in lots of other uses. For instance, it's used
24 in water, natural gas, steam and other components that
25 I would say are your more every day uses that the

1 normal consumer would use.

2 So in looking at what has happened in the
3 states that have been severely affected by Katrina,
4 the home devastation, et cetera, are you not expecting
5 that you're going to have to be replacing an awful lot
6 of your product in uses other than refineries?

7 MR. COULAS: Weldbend Corporation. Our
8 product is not used in homes, it's used in industrial
9 and for all the infrastructure probably a lot of that
10 will remain and the only thing that will change would
11 be from the ground up.

12 CHAIRMAN KOPLAN: Your time is not up.

13 COMMISSIONER LANE: No, but what's going on
14 here with all of these electronics?

15 So the water uses are industrial uses and
16 you don't expect that the hurricane will have affected
17 any of that?

18 MR. COULAS: Not at any time soon.

19 COMMISSIONER LANE: Okay.

20 MR. BERGER: This is Ken Berger. I can
21 specifically speak to the water situation. Most
22 people don't like rust in their water and so no carbon
23 steel pipe fittings or carbon steel pipe will not be
24 used in any water situation that's going for home use.
25 The closest we'd get to a home would potentially be a

1 natural gas line coming into your house.

2 COMMISSIONER LANE: So all of the
3 distribution systems coming up to the home won't be
4 affected either? Okay.

5 MR. BERGER: Correct.

6 COMMISSIONER LANE: Do any of your firms
7 purchase or import subject imports?

8 MR. FORBIS: Trinity does not.

9 MR. ZIDELL: Jay Zidell. Tube Forgings does
10 not.

11 MR. BERGER: Mills Iron. We don't import
12 anything.

13 MR. COULAS: Weldbend. We purchase subject
14 material, not imported.

15 COMMISSIONER LANE: I'm sorry. You do
16 purchase?

17 MR. COULAS: Subject imports. We do not
18 import.

19 COMMISSIONER LANE: Okay. Thank you. I
20 don't have any more questions.

21 CHAIRMAN KOPLAN: Thank you, Commissioner
22 Lane. Commissioner Pearson?

23 COMMISSIONER PEARSON: Mr. Coulas, in your
24 statement you had mentioned that prices in the U.S.
25 generally are higher than in foreign markets, and I

1 know this has been discussed a little bit earlier, but
2 my question is, if this is the case, doesn't it
3 suggest that imports have not yet had the effect of
4 lowering U.S. prices relative to those in the rest of
5 the world?

6 This is in the context of statements that
7 certain firms exporting to the United States just want
8 to maintain market share and are thus not as attuned
9 to prices as others might be. I just don't think
10 we're seeing those effects in the market at the
11 present time. Could you comment, please?

12 MR. COULAS: Right now, raw material costs,
13 labor costs, health insurance -- all that does
14 drive -- energy costs -- drives our prices up.

15 COMMISSIONER PEARSON: But then why don't we
16 have more imports coming in? It's very difficult in
17 an open, global economy to maintain a higher price in
18 the United States than in other countries other than
19 the transportation cost differences. That's what I'm
20 trying to understand. What's going on here that's
21 keeping nonsubject imports from coming in in such an
22 amount to equalize the price basically so that we have
23 a uniform price across the world instead of a higher
24 price in the United States?

25 MR. KRIESBERG: Simeon Kriesberg.

1 Commissioner, I'll give a try at that. I understand
2 the theoretical attractiveness of the notion that
3 there would be some sort of single price throughout
4 the world. I'm not aware, unfortunately, of any
5 markets in which that actually exists.

6 I think what we have seen, however, is as
7 the prices in the domestic market rise, as they did
8 very sharply in 2004 and at the beginning of 2005,
9 that, in fact, there has been a very substantial
10 erosion in the domestic industry's market share so
11 that we are seeing what I think all of the parties
12 here have testified to as the beginning of the end of
13 our ability to maintain that price differential and
14 that, in very short order, in order to maintain our
15 sales, the prices are going to come back down to earth
16 again. So we will have a narrowing of the gap that
17 you're identifying, but I think there will always be
18 some imperfections in the marketplace that will
19 maintain certain distinctions from market to market in
20 their pricing.

21 COMMISSIONER PEARSON: Okay. Well, that's
22 fair enough. I perhaps am more familiar with markets
23 in which traders earn money by trying to get stuff
24 from where it's relatively low priced to somewhere
25 where it's worth more. I don't have a sense for the

1 liquidity and fluidity of the market for butt-weld
2 pipe fittings, and maybe it's just a smaller, more
3 segmented marketplace that never will -- you'll never
4 get all of the kinks out of it.

5 One would think that, over time, there is no
6 theoretical reason why the United States shouldn't
7 have a higher price for these fittings than you might
8 find in Europe or in another developed economy. If
9 there is a rationale why we should have a higher price
10 in the United States, I would love to hear it. Feel
11 free to respond in post-hearing. Okay?

12 I wanted to ask a question about what seems
13 to be the divergence in financial performance among
14 the firms in this industry. Now, if we look at the
15 data that we have available in the confidential
16 record, there is one subset of firms that appears to
17 be handling the challenges of the current market
18 environment quite well while another subset has not
19 fared so well. In that light, is it fair to assume
20 that at least some of the problems facing the domestic
21 industry, facing the lower-performing subset of the
22 domestic industry, are due not so much to imports but,
23 rather, due to issues relating to cost structures or
24 operating efficiencies? Could anyone address that?

25 (Pause.)

1 MR. BOGARD: Commissioner, this is Lawrence
2 Bogard. I will try to address in the post-hearing
3 brief -- addressing structural differences among the
4 companies in a public forum is probably difficult for
5 all of us.

6 COMMISSIONER PEARSON: I appreciate that. I
7 didn't expect everyone to just jump up and start
8 commenting.

9 As we look at this record, this is
10 interesting to me because I think I'm seeing a wider
11 divergence in performance among firms than I'm
12 accustomed to, and there may be reasons for it, and I
13 understand that we can't discuss all of that in great
14 detail here, but I would like to understand it better.
15 Mr. Graham?

16 MR. GRAHAM: I mentioned earlier that we had
17 done a consolidation of the plants and an improvement
18 of the process, and in light of that, I would hope you
19 would take some favor in thinking that we did a pretty
20 good job and that we saved a little money. Beyond
21 that, I wouldn't know what to tell you.

22 COMMISSIONER PEARSON: Ms. Ellsworth?

23 MS. ELLSWORTH: (Off mike.)

24 COMMISSIONER PEARSON: Let me ask one last
25 question, if I might. Mr. Berger, you had mentioned

1 that recently some Chinese seamless pipe has been
2 approved for use in the United States, and would that
3 be for oil country tubular good use?

4 MR. BERGER: Both for oil country tubular
5 and for line pipe.

6 COMMISSIONER PEARSON: Okay. In that case,
7 has this approval had the effect of increasing the
8 availability and perhaps lowering the price for your
9 raw material? You can now use that Chinese pipe as an
10 input. Am I correct?

11 MR. BERGER: The difficulty is it's only
12 been on the West Coast, and there has only been one or
13 two of the not-as-major players. The approval lists
14 are sort of driven by Exxon and maybe Dow. Neither of
15 them have done it, and so if we were to use Chinese
16 pipe at this point, those two basically take the
17 position, if you use raw material pipe from somebody
18 who is not on our approved list, we don't want your
19 fitting. So until it becomes more common, but because
20 of the price differential that China tends to have in
21 everything they sell, yes, I think it will tend to go
22 more that direction.

23 COMMISSIONER PEARSON: Thanks. That's, I
24 think, a good explanation. Would anyone else care to
25 comment?

1 MR. FORBIS: My comments would be that it's
2 too early to tell. It very well may increase the
3 supply, but I haven't noticed that yet.

4 COMMISSIONER PEARSON: Well, I thank you
5 very much for your indulgence. I ask questions that
6 occur to me, and you've been very patient and
7 forthright, to the extent you could be, in your
8 answers.

9 Mr. Chairman, I have no further questions.

10 CHAIRMAN KOPLAN: Thank you, Commissioner.
11 I don't have any further questions. I don't have
12 another round.

13 I want to thank you all for your responses
14 to our questions thus far. I appreciate how far some
15 of you have come, from as far as southern California
16 and Oregon. So let me turn to Vice Chairman Okun.

17 Commissioner Hillman?

18 COMMISSIONER HILLMAN: I have just two quick
19 follow-ups. One, Mr. Kriesberg, in your response to
20 me, you drew my attention to the data that we do have
21 on the record on the issue of exports and how they
22 have increased, which does, for me, beg just one
23 question, maybe for post-hearing or not.

24 Some of the data that we have relied on is
25 U.N. data that is at a six-digit, HTS level, so not

1 anywhere near as precise as the specific category that
2 we're looking at here. If there is anything that you
3 can do to help me understand how overstated the data
4 would be, in other words, how much stuff is likely to
5 be included in that broader category that would not be
6 subject to that review. I don't know enough about
7 this particular product to understand how much broader
8 that would be than what we're really looking at. If
9 there is anything that you could do to help me
10 understand that, I would very much appreciate it.

11 MR. KRIESBERG: We'll look into that and
12 include it in the post-hearing.

13 COMMISSIONER HILLMAN: Okay. Then the final
14 question: One of the witnesses, and I apologize that
15 I don't recall who, mentioned this issue of an
16 increase in the importations of forgings that are then
17 finished here, and I guess I wanted to understand a
18 little bit how significant a phenomenon that is and
19 where the value added really lies. For your industry,
20 is the real meat of what you're doing in the
21 production of the forgings themselves, or is it in the
22 finishing out of them into the final fittings? I'm
23 just trying to understand how big this phenomenon is
24 and how we should view it in this issue of the
25 vulnerability of the industry. Perhaps it was you,

1 Mr. Zidell, who commented on Mr. Forbis. Go ahead.

2 MR. FORBIS: It was in my testimony about
3 that we don't do it, but others in the industry do,
4 and I think it's just done as a way to reduce your
5 costs. If you're starting from something that's
6 imported, it's at a lower cost basis than what you
7 would start with if you start with pipe in the United
8 States.

9 COMMISSIONER HILLMAN: And in terms of the
10 relative value added, producing the forging versus
11 finishing the fitting, where would that continuum lie?
12 Where would that portion of value added be?

13 MR. FORBIS: I'm not sure I can answer that
14 one.

15 COMMISSIONER HILLMAN: Do you have a sense
16 of how significant this phenomenon is? What portion
17 of the finished fittings sold in the U.S. would have
18 started with imported forgings that are finished here?

19 MR. FORBIS: I don't have the data on that.

20 COMMISSIONER HILLMAN: Big phenomenon?
21 minor?

22 MR. FORBIS: I don't know. I really don't.

23 COMMISSIONER HILLMAN: Mr. Graham?

24 MR. GRAHAM: Well, I have an opinion.

25 COMMISSIONER HILLMAN: Go ahead. If you

1 could pull that microphone just a little bit closer.

2 MR. GRAHAM: I haven't seen any process like
3 you're describing, this big to start with and this
4 much left to do, that this wasn't very costly at all,
5 at all.

6 COMMISSIONER HILLMAN: Okay. So these
7 imported forgings that are coming in are bringing in
8 the lion's share of the value.

9 MR. GRAHAM: That would be my guess, and
10 that's what we've seen.

11 COMMISSIONER HILLMAN: And do you have a
12 sense of how significant a phenomenon it is?

13 MR. GRAHAM: No. As far as tonnage or
14 volume, no way of knowing.

15 MS. ELLSWORTH: But what I think we can
16 clarify is that Trinity, at this point, does not use
17 any imported rough forgings to produce butt-weld pipe
18 fittings.

19 COMMISSIONER HILLMAN: Does anyone else in
20 the industry want to comment?

21 (No response.)

22 COMMISSIONER HILLMAN: All right. I think,
23 with that, I have no further questions, Mr. Chairman.
24 Thank you.

25 CHAIRMAN KOPLAN: Thank you, Commissioner

1 Hillman. Commissioner Lane? No further questions?

2 I'm going to turn to staff and see if staff
3 has questions. I do have a request. Mr. Totaro, if
4 you could get together with our staff with regard to
5 that division between Thailand, subject and
6 nonsubject, and confer with them whether it got to
7 that methodology after the hearing so that we can get
8 that resolved.

9 MR. TOTARO: Sure. I would be glad to.

10 CHAIRMAN KOPLAN: Good. Ms. Mazur, does the
11 staff have questions of this panel?

12 MS. MAZUR: Just one question, Mr. Chairman.
13 As a follow-up to Commissioner Hillman's question
14 regarding the value added by finishing unfinished
15 forgings, if the rest of the witnesses or counsel
16 thereof could provide, in post-hearing submissions,
17 any information they might have on the value added
18 that their firms may be adding to imported forgings on
19 finished product, please.

20 MR. HUGHES: You used seamless pipe in your
21 production. Could you give us the proportions of
22 standard pipe and line pipe or other pipe that you
23 use, just roughly?

24 MS. ELLSWORTH: Could you please repeat the
25 question?

1 MR. HUGHES: I understand that you use
2 seamless pipe, and two types of seamless pipe that I
3 think are used are standard pipe and something called
4 line pipe, and I wondered if you could give the
5 proportions.

6 MR. COULAS: Line pipe is used in oil
7 drilling, and seamless is used for the manufacture of
8 fittings. We wouldn't use any line pipe.

9 MR. HUGHES: So you don't use any seamless,
10 line pipe at all.

11 MR. COULAS: We wouldn't use any seamless
12 line pipe.

13 MR. HUGHES: That's the case for everyone?
14 Thank you.

15 MS. MAZUR: The staff has no further
16 questions.

17 CHAIRMAN KOPLAN: Thank you. Mr. Secretary,
18 I believe that concludes all of the questioning, and I
19 think we are now ready to turn to closing.

20 MR. BISHOP: Yes, Mr. Chairman. That
21 concludes direct testimony.

22 Giving closing remarks in support of
23 continuation of orders is Lawrence Bogard, Nelville
24 Peterson.

25 //

1 CLOSING REMARKS OF LAWRENCE J. BOGARD

2 MR. BOGARD: Thank you. In the testimony
3 you've heard today, I think there are three words that
4 you've heard repeatedly with regard to the domestic
5 butt-weld pipe fittings industry. The first of these
6 is "stagnant." The butt-weld pipe fittings industry
7 has been stagnant throughout the review period.
8 You've heard testimony that it's a mature industry
9 with no opportunities for growth or innovation.
10 You've heard that the economic outlook of the industry
11 has changed very little since any of these orders were
12 issued, and that's despite the industry's success at
13 improving its production management and efficiency.

14 The second word you've heard a lot was
15 "unsustainable." That was the witnesses today
16 testifying unanimously their view that the modest
17 profits recognized in 2004 and the profits of 2005 in
18 the first half of the year were related directly to
19 sharp increases in prices for the raw materials as
20 well as for all steel products. They were also
21 unanimous in their view that the financial
22 improvements they saw in 2004 and 2005 are
23 unsustainable. We believe that that testimony is
24 corroborated by the data in the staff report.

25 The third word you heard to describe the

1 domestic industry today in all of the testimony is
2 that it's "vulnerable." The U.S. butt-weld pipe
3 fittings industry is vulnerable to material injury
4 caused by the subject imports. The evidence shows
5 that, starting in mid-2004 through the second half of
6 2004 and the first half of 2005, domestic production
7 declined, domestic shipments declined, and the
8 domestic share of the U.S. market declined in the face
9 of competition from nonsubject imports.

10 Now, the introduction now of large volumes
11 of imports from the five subject countries would
12 further erode domestic sales, prices, and market share
13 to the point where the industry would certainly suffer
14 material injury.

15 The information that the Commission has
16 developed in this review -- the staff report and the
17 testimony you've heard today -- fully supports the
18 conclusion that the revocation of these five
19 antidumping duty orders would result in the
20 continuation or recurrence, within a reasonably
21 foreseeable time, of material injury to this industry.
22 We urge you to make that determination.

23 On behalf of the U.S. fittings industry and
24 my clients, I thank you for your time and attention
25 today.

1 CHAIRMAN KOPLAN: Thank you.

2 Post-hearing briefs, statements responsive
3 to questions and requests of the Commission, and
4 corrections to the transcript must be filed by
5 September 16, 2005. Closing of the record and final
6 release of data to parties is October 6, 2005, and
7 final comments are due October 11, 2005. With that,
8 this hearing is adjourned.

9 (Whereupon, at 12:16 p.m., the hearing in
10 the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Carbon Steel Butt-Weld Pipe Fittings

INVESTIGATION NO.: 731-TA-308-310, 520 and 521

HEARING DATE: September 7, 2005

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

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

DATE: September 7, 2005

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

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

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) 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 proceeding(s).

SIGNED: Paul S. Intravia
Signature of Court Reporter