

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
CERTAIN BEARINGS FROM CHINA,) Investigation Nos.:
FRANCE, GERMANY, ITALY,) 731-TA-344, 391-A, 392-A
JAPAN, SINGAPORE, AND THE) and C, 393-A, 394-A, 396
UNITED KINGDOM) and 399-A (Second Review)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

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) Investigation Nos.:
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 FRANCE, GERMANY, ITALY,) and C, 393-A, 394-A, 396
 JAPAN, SINGAPORE, AND THE) and 399-A (Second Review)
 UNITED KINGDOM)

Tuesday,
 May 2, 2006

Room No. 101
 U.S. International
 Trade Commission
 500 E Street, S.W.
 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.

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On behalf of the International Trade Commission:

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In Support of the Continuation of the Antidumping Duty
 Orders:

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P R O C E E D I N G S

(9:30 a.m.)

1
2
3 CHAIRMAN KOPLAN: Good morning. This
4 meeting of the U.S. International Trade Commission
5 will please come to order. On behalf of the
6 Commission, I welcome you to this hearing on
7 Investigation Nos. 731-TA-344, 391-A, 392-A and C,
8 393-A, 394-A, 396 and 399-A (Second Review) -- I'd
9 like to tell you that I had memorized that, but I
10 hadn't -- involving Certain Bearings From China,
11 France, Germany, Italy, Japan, Singapore and the
12 United Kingdom.

13 The purpose of these second five-year review
14 investigations is to determine whether revocation of
15 the antidumping duty orders covering certain bearings
16 from China, France, Germany, Italy, Japan, Singapore
17 and the United Kingdom would be likely to lead to
18 continuation or recurrence of material injury to an
19 industry in the United States within a reasonably
20 foreseeable time.

21 Notices of investigation for this hearing,
22 list of witnesses and transcript order forms are
23 available at the Secretary's desk. I understand the
24 parties are aware of the time allocations. Any
25 questions regarding the time allocations should be

1 directed to the Secretary.

2 As all written material will be entered in
3 full into the record it need not be read to us at this
4 time. Parties are reminded to give any prepared
5 testimony to the Secretary. Do not place testimony
6 directly on the public distribution table. All
7 witnesses must be sworn in by the Secretary before
8 presenting testimony.

9 Finally, if you will be submitting documents
10 that contain information you wish classified as
11 business confidential your requests should comply with
12 Commission Rule 201.6.

13 Madam Secretary, are there any preliminary
14 matters?

15 MS. ABBOTT: Yes, Mr. Chairman. With your
16 permission, there are several additions to the
17 calendar.

18 On page 2, Beth Argenti, of counsel; on page
19 6, Bill Zhang, Marketing Manager, and Mark Liu,
20 President, of YCB International, and Edgar Ding,
21 Chairman, TSB Bearing Group Company, Ltd.; on page 8,
22 Johna Purcell, corporate attorney at Caterpillar; and
23 on the last page, John W. Rauber, Director of
24 International Affairs, John Deere.

25 CHAIRMAN KOPLAN: Thank you. Without

1 objection, those changes are made.

2 Let me proceed with the opening remarks.

3 MS. ABBOTT: Opening remarks in continuation
4 of orders will be by Terence P. Stewart, Stewart and
5 Stewart.

6 CHAIRMAN KOPLAN: Welcome back, Mr. Stewart.

7 MR. STEWART: Thank you, Mr. Chairman,
8 Commissioners. Sunset reviews, as you've mentioned,
9 Mr. Chairman, involve eight orders affecting three
10 bearing industries.

11 For the six orders affecting the ball
12 bearing industry, certain facts remain largely
13 unchanged from the record before you six years ago,
14 including the definition of the industry, the
15 continued fragmented nature of the industry, a high
16 degree of interchangeability between domestic and
17 subject merchandise, the extensive overlap of
18 competition between domestic and subject product, the
19 commodity nature of much of the product, the continued
20 dumping of the subject imports.

21 At the same time, there have been a few
22 important changes, including a rapidly deteriorating
23 domestic industry which is now plainly vulnerable to
24 recurrent injury, increasing non-subject imports and
25 increased price sensitivity for many purchasers due to

1 financial difficulties and bankruptcies.

2 With prices in the U.S. less depressed than
3 in other markets due to the orders, with export
4 dependency of all six subject countries, with reseller
5 arbitrage a potentially significant driver of expanded
6 exports to the U.S. and with the history of bearing
7 producer actions following past revocations of
8 different bearing orders six years ago when imports
9 increased from 100 to 400 percent, revocation of these
10 orders will lead to a surge in imports from the six
11 countries and devastation to the domestic industry.

12 For the tapered roller bearing industry, the
13 challenges to the domestic industry in 2006 are much
14 greater than they were in 1999-2000 when the
15 Commission continued the order on China. Despite
16 enormous growth in its domestic consumption of
17 bearings since 2000, China has increased exports of
18 tapered roller bearings to the world by more than 500
19 percent during that same time period and runs a
20 quantitative global trade surplus equal to a large
21 part of total U.S. production.

22 The Chinese industry is planning strong
23 additional growth in production and exports in the
24 coming years, is focused on challenging all segments
25 of the tapered market and has seen significant

1 improvements in quality of end product, raw materials,
2 equipment and trained personnel.

3 Purchasers find significant
4 interchangeability between Chinese and domestic
5 tapered bearings as reported in your staff report.
6 Many major OE customers are now actively involved in
7 China. Chinese producers are increasing areas of
8 penetration in the market, and U.S. TRB producers are
9 under intense pressure to either match the China price
10 or source from China. Similarly significant parts of
11 the domestic automotive industry are under financial
12 duress making price the primary driver for the
13 foreseeable future on their purchases.

14 Contrary to Chinese claims, Timken's
15 existing capacity provides large quantities of high
16 volume, standard tapered roller bearings to
17 automotive, industrial and after market customers.
18 These same high volume part numbers are available from
19 many Chinese TRB producers.

20 Revocation of the order would result in the
21 loss of substantial volume for U.S. producers with the
22 likely closure of one or more major facility.
23 Maintaining the order on imports from China is thus
24 critical to the domestic industry.

25 Finally on spherical plain bearings, the

1 public staff report indicates that a number of
2 industry criteria show declines during the period
3 under review, making the industry vulnerable to
4 increased imports.

5 Moreover, when orders on imports from
6 Germany and Japan were revoked in 2000, imports surged
7 by up to 400 percent. Similar surges in imports from
8 France can be anticipated if the order on France is
9 revoked.

10 Accordingly, Mr. Chairman and Commissioners,
11 we urge the Commission to find that revocation of the
12 eight orders will likely lead to a continuation or
13 recurrence of material injury for the domestic bearing
14 industries within a reasonably foreseeable time.

15 Thank you very much.

16 CHAIRMAN KOPLAN: Thank you.

17 Madam Secretary?

18 MS. ABBOTT: Opening remarks in support of
19 revocation of the order will be by Matthew P. Jaffe,
20 Crowell & Moring.

21 CHAIRMAN KOPLAN: Welcome back to you as
22 well, Mr. Jaffe.

23 MR. JAFFE: Thank you. Good morning. When
24 I hear the opening statements of the companies that
25 support a continuation of the order I really find that

1 they're nostalgic for the 1980s. A lot has changed
2 since the internet was a twinkle in Al Gore's eye,
3 especially in the bearing industry.

4 Number one change? Massive restructuring in
5 the U.S. bearing industry, massive restructuring in
6 the global bearing industry, especially since 2000. A
7 prime example? Witnesses missing from today's panel.

8 Torrington? Timken has swallowed them
9 primarily for their needle roller bearing capacity and
10 has basically divested substantial portions of their
11 ball bearing capacity. Killian is a perfect example.

12 Now, when you translate the restructuring
13 that has taken place this is what you'll see. You are
14 going to see declines in U.S. capacity, declines in
15 U.S. production and U.S. shipments to name just a few
16 examples.

17 Those who are in support of continuation of
18 the orders would like you to interpret these
19 indicators as demonstrating an industry vulnerable to
20 import competition. That's not true. What you're
21 seeing is an industry changing with the conditions of
22 competition, actually experiencing a rebirth, growing
23 stronger, more vibrant, more focused on highly
24 technical custom ball bearings that U.S. producers
25 require to be manufactured in North America.

1 What you see in the United States you're
2 seeing throughout the world in industrialized
3 countries, including those countries that we know here
4 as the subject countries.

5 Now, to understand those developments you
6 must place everything into context and view the
7 bearing industry by key customer sectors. First, the
8 automotive OEM sector. I don't think it's any secret
9 here that this sector is financially challenged, but
10 when you turn to the supporters please ask them to
11 place their answers in context to their participation
12 in this sector.

13 Rexnord, Emerson, Pacamor Kubar. What's
14 your share of the automotive OEM sector? Do you even
15 sell into that sector? I think it's well-known in the
16 industry that of the four companies that support the
17 continuation of the order only Timken does, and it's
18 barely worth a footnote.

19 Meanwhile, those ball bearing companies who
20 are here today and who do have a significant share of
21 the automotive OEM sector who manufacture significant
22 quantities of automotive OEM ball bearings here in the
23 United States are asking you to sunset these orders.

24 The industrial OEM sector? Well, that's a
25 little more difficult. There's a lot of different

1 purchasers there, but I believe the analysis of this
2 sector comes down to one thing: Either you accept the
3 supporters' contention that there is no such thing as
4 a custom ball bearing, that there's only standard ball
5 bearings on steroids, or you accept the contention,
6 the testimony of Delphi, John Deere, Caterpillar,
7 Eaton, which will tell you that there are custom ball
8 bearings, many highly technical in nature.

9 Price, yes, plays a role. It plays a role
10 with every market driven company, but they're not
11 about to sacrifice quality, service, reliability,
12 their reputation if the orders are revoked just to
13 save a few pennies.

14 Then there's the aftermarket. While we're
15 inventorying and shelf space is not being dominated by
16 the name brand giants, Timken and SKF, yes, price
17 plays a role. Standard ball bearings are predominant
18 in this market, but in the situation where brand name
19 does not matter and price rules forget imports from
20 the subject countries. They cannot compete against
21 imports from the non-subject countries.

22 Last, I have one request. I read a lot of
23 earnings conference calls in preparation for this day.
24 I've looked at Timken. It talks a lot about global
25 conditions of competition, how they restructured their

1 business here in the United States and around the
2 world because of those conditions of competition.
3 It's now focused on creating value and innovation and
4 doing it all around the world.

5 Ask them today when they answer your
6 questions to do so in a manner as if this today is an
7 earnings conference call. I believe that the answers
8 you will hear will lead you to conclude that removal
9 of these orders will not likely lead to the
10 continuation or recurrence of material injury within
11 the reasonably foreseeable future.

12 Thank you.

13 CHAIRMAN KOPLAN: Thank you.

14 Madam Secretary?

15 MS. ABBOTT: The first panel in support of
16 the continuation of the antidumping duty order, please
17 come forward.

18 Mr. Chairman, the witnesses have been sworn.

19 (Witnesses sworn.)

20 CHAIRMAN KOPLAN: Thank you.

21 Can that light be adjusted, maybe raised, so
22 that it's not -- are you all right, Mr. Stewart? No
23 problem. You may proceed.

24 MR. STEWART: Thank you very much, Mr.
25 Chairman. I'm going to turn it over immediately to

1 Tim Timken.

2 MR. TIMKEN: Chairman Koplan, Commissioners,
3 Commission staff, good morning. I am Tim Timken,
4 chairman of the Timken Company. Our company is a
5 producer here in the United States of each of the
6 three bearing types that correspond to imported
7 products from the seven countries that are subject to
8 this sunset review.

9 The Timken Company and the previous
10 Torrington Company were the Petitioners in the cases
11 that resulted in all eight of the orders. It is my
12 privilege to be here today representing the thousands
13 Timken associates here in the United States who work
14 tirelessly to bring improved value to our customers
15 and provide acceptable levels of return to our
16 investors.

17 For our workers and investors and for the
18 health of the three domestic industries being examined
19 and indeed for the long-term benefit of our customers,
20 maintaining the eight antidumping orders is critically
21 important.

22 I understand that the legal standard used by
23 the Commission is whether the revocation of the orders
24 would likely lead to a continuation or recurrence of
25 material injury within a foreseeable period. I am

1 convinced that this standard is met in these reviews.

2 Certainly Timken's experience in its U.S.
3 operations with the orders in place demonstrates that
4 injury will continue or recur if the orders are
5 revoked. Five years ago, the five producers seeking
6 revocation claimed that imports would not increase
7 significantly if the orders were revoked. In fact,
8 imports in virtually every category surged when the
9 orders on tapered roller bearings, spherical plain
10 bearings and cylindrical roller bearings were revoked.

11 This is actual history and not our
12 opponents' assertions. It is a reliable indicator of
13 what will happen if the orders on ball bearings are
14 revoked.

15 The public prehearing staff report of
16 April 14, 2006, presents a compilation of information
17 submitted to the Commission. For ball bearings, much
18 of the summary information is public and confirms the
19 need to maintain the orders. We thank the Commission
20 staff for their hard work in compiling the vast
21 amounts of information submitted by various parties.

22 Since the last sunset review, the domestic
23 ball bearing industry has experienced declining
24 fortunes despite overall strong economic growth in the
25 latter part of this period. The staff report shows

1 declines from 2000 to 2005 in capacity, production,
2 capacity utilization, shipments, production workers,
3 hours worked, wages paid, gross profit and operating
4 income.

5 Indeed, the operating income percentages
6 throughout the 2000 to 2005 period are lower than any
7 year examined in the original investigation and well
8 below the 1997 to 1998 period examined in the first
9 sunset review.

10 For the last three years, the domestic ball
11 bearing industry had a collective negative operating
12 income on sales of \$5 billion. At the same time,
13 domestic producers have lost market share, 4.1
14 percentage points since 2000 and 14.4 percentage
15 points since the original investigation period.

16 The industry declines are apparently broad
17 based according to staff, meaning that most domestic
18 producers have suffered declines over the period of
19 review. The industry remains fragmented, and a
20 sizeable portion of ball bearing sales remain
21 commoditized as the Commission staff noted in the
22 first sunset review. This adds to the vulnerability
23 of the domestic industry.

24 Certainly Timken's experience as reviewed in
25 its questionnaire response reflects similar declines

1 as experienced by the industry as a whole in capacity,
2 production, capacity utilization, shipments,
3 employment, wages and the other elements.

4 We have closed a number of facilities and
5 have seen prices on various ball bearings decline
6 sharply, putting other of our facilities at potential
7 risk. Thus, the condition of the domestic ball
8 bearing industry at the time of this sunset review is
9 properly characterized as vulnerable to continued or
10 recurrent material injury.

11 While conditions have deteriorated for the
12 domestic producers generally, the ball bearing orders
13 have imposed some discipline on imports from the six
14 covered countries. This can be seen by the stable to
15 declining market share of imports from the six
16 countries since the last sunset review and since the
17 original investigation, yet all six countries remain
18 among the world's largest exporters of ball bearings.

19 The staff report correctly notes that each
20 of the countries covered by orders are major producers
21 and major exporters of ball bearings to the world.
22 Trade data from government export statistics shows
23 that globally the six countries covered by the ball
24 bearing orders are each among the top 10 ball bearing
25 exporters in the world. That would include first,

1 second, fourth, fifth, sixth and tenth with 2004
2 exports shown as being \$4.5 billion.

3 While these export statistics do not include
4 all products covered by the orders such as housed
5 bearings which would include wheel hub units, they are
6 a good indicator of the clout that these six countries
7 have in the global ball bearing market.

8 These government export statistics should be
9 compared to the data supplied by foreign producers.
10 The public staff report only shows data for Japan, but
11 I would note that Japanese companies responding to the
12 Commission identified total exports of only \$770
13 million versus government data for a subset of the
14 product of \$1.34 billion for 2004.

15 Thus, the capacity to export and the
16 willingness to export are even greater than the subset
17 of Japanese producers who responded to the
18 Commission's questionnaire would suggest.

19 In Timken's producer questionnaire response
20 we supplied a great deal of information on the prices
21 at the distribution level on ball bearings which
22 confirms that orders have restored some price
23 discipline in the marketplace. Indeed, prices are
24 higher in the U.S. than they are in contiguous markets
25 in Canada and Mexico where there are no orders. It is

1 also true in much of the major markets of the EU and
2 Japan.

3 Obviously revocation of the orders on ball
4 bearings will increase imports dramatically. Various
5 excerpts from importers and purchaser questionnaire
6 responses contained in the public staff report
7 confirms as much.

8 Moreover, as the Commission learned in a 337
9 case filed by SKF several years ago, higher prices in
10 the U.S. have led to significant reseller activity.
11 Purchasers in the subject countries bought the subject
12 merchandise at lower prices than major branded
13 companies were charging U.S. customers. They resold
14 it in this market at deep discounts. This trading was
15 found not to be a violation of trademark law.

16 While such reseller imports are subject to
17 the orders as well and are now subject to the all
18 other rate, revocation of the orders will result in
19 arbitrage once more as resellers pursue the less
20 depressed prices in the U.S., increasing imports and
21 in the process lowering market prices in the U.S.
22 rapidly.

23 Ball bearing imports from China into the
24 U.S. have risen sharply in recent years at very low
25 prices, increasing the industry's vulnerability.

1 Removal of the orders on ball bearings from the six
2 subject countries that are currently covered will add
3 substantial downward price pressure by all foreign
4 producers in these countries and by resellers as they
5 once again seek to obtain larger market share.

6 Such additional pricing pressure would occur
7 at a time when the U.S. industry is not generating any
8 operating income and where prices are clearly not
9 sustainable. Should revocation occur, producers in
10 Japan, the four EU countries and Singapore will no
11 longer have to evaluate whether their export prices
12 are dumped or not.

13 As SKF's 337 filing demonstrates, at least
14 some of the major companies covered by the orders have
15 closely evaluated their prices in an effort to reduce
16 dumping liability. Without the orders, such producers
17 who have maintained a significant market presence with
18 the orders in place will be free to import to fill out
19 their line, improve capacity utilization and foreign
20 operations, shift volume to higher priced U.S. markets
21 and strategically target accounts with aggressive
22 pricing.

23 As the Commission is aware, labor laws in
24 many European countries and Japan also mean that it is
25 far more likely that the multinational companies will

1 maintain production in those countries during
2 downturns and reduce production in other areas,
3 including the U.S. This fact means that foreign
4 producers, during periods of reduced demand, will also
5 export to the U.S. even if it directly hurts their
6 U.S. operations.

7 Now let me turn to an issue receiving a lot
8 of attention from those seeking revocation, which in
9 my view is a non-issue; namely the question of custom
10 versus standard bearings. Both U.S. producers and
11 foreign producers supply standard and custom bearings.
12 This is nothing new. It was true when these cases
13 were originally filed and continues to be true today.

14 Timken's president of industrial bearings
15 and president of automotive bearings have each
16 prepared affidavits on the custom versus standard
17 issue, which were included in our prehearing brief.
18 These affidavits paint a picture of how our markets
19 function in ball bearings and the other bearings
20 subject to review.

21 Today, as back when the cases were
22 originally filed, U.S. producers face intense
23 competition in all markets from foreign producers,
24 whether covered by the present orders or not. For
25 example, as we look at the U.S. market, we see that

1 the Chinese have made major inroads on standard ball
2 bearings and are increasingly going after custom
3 bearings. Chinese ball bearings, as I reviewed
4 earlier, are not covered.

5 For U.S. producers, the major international
6 competitors in the custom bearing market are the major
7 Japanese, European and Singaporean companies covered
8 by these orders. They are also leading producers of
9 standard bearings as the public staff report confirms.

10 While the Commission staff did not obtain
11 information on the share of total production from
12 foreign producers that were custom or standard, the
13 summary data in the public staff report confirms that
14 there is a broad competition between domestic
15 producers and from imports from the six covered
16 countries, even with the orders in place.

17 Revocation of the orders will only increase
18 pressure on U.S. producers across the entire domestic
19 market. In short, despite strong current global
20 demand, U.S. ball bearing producers are vulnerable to
21 a continuation or recurrence of material injury and
22 face a high likelihood that revocation will result in
23 a sharp increase in imports just as happened with
24 other bearing products from the same countries
25 following revocation six years ago. I ask the

1 Commission to continue these orders.

2 On spherical plain bearings, none of the
3 domestic industry data are presently summarized in the
4 public staff report. Nonetheless, the public staff
5 report indicates that there were declines in capacity,
6 production, U.S. shipment and productivity and that
7 two companies exited the domestic industry.

8 Timken's experience in spherical plain
9 bearings over the last five years have paralleled the
10 results identified in the staff report for the
11 industry as a whole. So serious has been the decline
12 in our SPB operations that we have serious questions
13 as to whether to continue our U.S. production of this
14 product.

15 Certainly without conditions of fair trade
16 our U.S. production would be forced to cease. While
17 only imports of spherical plain bearings from France
18 remain covered, orders have had significant beneficial
19 effect as can be seen from the consequences of
20 revocation in 2000 of the spherical plain bearing
21 orders on Germany and Japan.

22 Despite claims to the contrary at this time
23 by the representatives of the foreign producers,
24 revocation led to dramatic increases in imports into
25 the United States from Germany and Japan. The surging

1 imports from these two countries have harmed Timken
2 and presumably the rest of the domestic industry. All
3 of this supports the high likelihood that imports from
4 France will dramatically increase should the orders be
5 revoked.

6 In conclusion, the domestic ball bearing
7 industry is in crisis and has significantly contracted
8 in the last five years. If you revoke the orders, the
9 imports will surge and domestic plants will close.
10 Imports from the same countries of our bearings surged
11 100 to 400 percent on revocation. We urge you to
12 continue these orders.

13 Thank you for the opportunity to present my
14 views.

15 MR. SWINEHART: Chairman Koplan,
16 Commissioners and Commission staff, good morning. I
17 am Robert Swinehart, president and COO of Emerson
18 Power Transmission Corp., generally referred to as
19 EPT, which is an operating unit within Emerson.

20 Emerson is a diversified manufacturing
21 company headquartered in St. Louis with 2005 sales of
22 \$17.3 billion.

23 CHAIRMAN KOPLAN: Excuse me. Could you move
24 that microphone just a bit closer to you? Thank you.

25 MR. SWINEHART: EPT is a major U.S. producer

1 of power transmission components, gear reducers, belt
2 drives and bearings. EPT serves a wide array of
3 machinery intense industries, including forestry and
4 wood products, mining and quarrying, power generation,
5 food and beverage, aerospace and heating, ventilation
6 and air conditioning.

7 Our most significant subject bearing product
8 is housed ball bearings, which we produce for a
9 variety of end uses including food and beverage,
10 manufacturing, heating, ventilating and air
11 conditioning and industrial applications. Our ball
12 bearing products are sold under the brand names of
13 Browning, Sealmaster and McGill.

14 By way of explanation, housed ball bearings,
15 which are also called mounted ball bearings, are sold
16 in a housing, normally cast iron, but it could be
17 plastic or stainless steel, and the purchaser then
18 installs the bearing by bolting it in place.

19 I have brought to the hearing today one U.S.
20 made pillow block bearing and three non-U.S. made, one
21 from England and two from Japan. Those are sitting
22 sort of in the middle of the table on the boxes that
23 they were in.

24 I am pleased to be here this morning on
25 behalf of EPT to urge the Commission to maintain the

1 antidumping duty orders on certain ball bearings from
2 France, Germany, Italy, Japan, Singapore and the
3 United Kingdom that are the subject of this sunset
4 review.

5 EPT is an innovator in the housed ball
6 bearing market, and we produce high quality, high
7 performance products that deliver value and
8 performance for our customers, yet EPT can only remain
9 a viable player in the bearing market if the
10 conditions of competition in that market are fair.

11 The antidumping duty orders before you today
12 have been important in ensuring that American
13 producers like EPT can compete on a level playing
14 field. If these orders were to be revoked the
15 consequences to the domestic industry, including for
16 EPT, would be significant.

17 The bearing industry is highly capital
18 intensive and very price competitive. This
19 combination creates an incentive for foreign producers
20 to offload product and capture market share by
21 dumping. This combination also makes dumping all the
22 more harmful to those that do play by the rules since
23 price is often the major differentiating factor among
24 competing products.

25 Constantly innovating and improving product

1 performance has been a hallmark of our company, and
2 high quality is a prerequisite to compete in the
3 bearing industry. Nonetheless, the foreign producers
4 subject to the current orders are also major players
5 in the global ball bearings market, and they already
6 have established the quality, technical support and
7 other service aspects needed to compete in the United
8 States. Therefore, the major remaining factor
9 distinguishing U.S. and subject foreign products is
10 often price.

11 Bearings are generally manufactured to
12 industry standards with the U.S. market dominated by
13 inch dimension standards and Europe and Asia dominated
14 by metric standards. Because of these standards,
15 there is a high degree of interchangeability making it
16 easy for an OEM or an end user to substitute the
17 product of one manufacturer for another.

18 Given that the mature industrialized
19 countries that are the subject of this sunset review
20 have high quality bearing manufacturers, price often
21 times becomes the criteria upon which the purchasing
22 decision is made. Therefore, foreign producers can
23 quickly penetrate these segments of the market and
24 rapidly gain market share through aggressive pricing.

25 When you consider the huge increase in

1 imports of other bearing products from some of these
2 same countries after orders were revoked in 2000 and
3 the fact that the U.S. market has prices less
4 depressed than many other nations, it is obvious that
5 revocation will lead to a large increase in imports of
6 ball bearings, including housed ball bearings.

7 Indeed, the major foreign producers subject
8 to this order all have U.S. sales forces, inventory of
9 product and are represented by power transmission or
10 bearing distributors throughout the United States.
11 That is why the current orders are so important and
12 why they must be maintained.

13 As your public prehearing staff report of
14 April 14, 2006, shows, the orders have reduced the
15 level of dumping in the U.S. market from these
16 countries on ball bearings, and imports of ball
17 bearings from the subject countries have fallen since
18 the last sunset review and their market share has
19 declined, so dumping has been reduced and there are
20 less dumped imports today than five years ago, all of
21 which has been helpful, even though the industry
22 overall is facing major difficulties at the present
23 time. Meanwhile, subject countries' global exports of
24 ball bearings have grown significantly since 2000.

25 The trend for housed ball bearings over the

1 past five years, while not shown in the staff report,
2 also reveals the beneficial effect of the orders.
3 U.S. imports of housed ball bearings from subject
4 countries rose 51 percent from 2000 to 2005 -- that's
5 by quantity -- while imports from the rest of the
6 world rose 150 percent over this same period, also by
7 quantity.

8 By value, housed ball bearings from subject
9 countries rose more than the value of imports from
10 non-subject countries, likely reflecting the effective
11 price discipline of the order and the lack of price
12 discipline on other major exporters to the United
13 States, particularly China.

14 Foreign producers have continued to dump to
15 some extent even with the orders in place. This is
16 clear from the fact that subject imports have averaged
17 nearly \$350 million per year during the period of
18 review while double digit dumping margins have been
19 found for various producers from the covered
20 countries.

21 Nevertheless, the price discipline imposed
22 by the orders has allowed EPT and other U.S.
23 manufacturers to continue serving the domestic market
24 on a viable basis. Indeed, when Emerson looks at
25 prices in neighboring markets for housed ball bearings

1 we find prices much lower in those markets than here
2 in the United States. In my view, this is due to the
3 existence of the antidumping duty orders in the U.S.

4 The public prehearing staff report reveals
5 that even with the orders in place the U.S. ball
6 bearing industry overall has seen declines in
7 shipments, employment, hours, wages paid, gross profit
8 and operating income from 2000 to 2005. The condition
9 of the industry will deteriorate if the orders are
10 revoked. That is a certainty.

11 On behalf of our workers and shareholders, I
12 urge you to maintain these orders, and I thank you for
13 this opportunity to present our views.

14 CHAIRMAN KOPLAN: Thank you.

15 MR. SPERRAZZA: Good morning, Chairman
16 Koplan, Commissioners and staff. I am Gus Sperrazza,
17 CEO of Pacamor Kubar Bearings, PKB.

18 Our company was founded more than 35 years
19 ago, and we produce miniature precision ball bearings
20 for a broad range of applications. We supply bearings
21 that are used in dental and medical devices, aircraft
22 and aerospace instruments, guidance and navigation
23 systems and computer and consumer applications.

24 PKB is proud to be the only miniature
25 precision ball bearing producer in the U.S. that is a

1 small business. Small businesses create most of the
2 jobs in the U.S. economy, and I can tell you that the
3 loyalty we feel at PKB to our workers and our company
4 is one of the reasons we take it so personally when
5 unfair foreign trade practices threaten our industry.

6 We are not just fighting for a better bottom
7 line, but for the survival of our business and for the
8 livelihoods of employees that have become part of our
9 family over the years. I am pleased to be here today
10 representing PKB and its employees, and on their
11 behalf I urge the Commission to maintain the
12 antidumping duty orders on ball bearings from France,
13 Germany, Italy, Japan, Singapore and the U.K.

14 These orders have allowed our company to
15 survive in the face of aggressive dumping by foreign
16 producers and to invest in the future of our company.
17 If the present orders were to be revoked, PKB may be
18 forced to abandon the ball bearing business.

19 I cannot overstate how important these
20 orders are to the continued viability of our company.
21 The surge of dumped imports that led to the imposition
22 of the present orders forced PKB into bankruptcy. At
23 that time, our company had to cut our workforce from
24 125 employees to four, and we barely survived the
25 process.

1 The only reason we were able to emerge from
2 bankruptcy in 1990 was because these orders imposed
3 much needed discipline on the dumping of miniature
4 precision bearings from Japan and Singapore in the
5 U.S. market.

6 The miniature precision ball bearing market
7 in the U.S. is highly price competitive. In our
8 business, the vast majority of sales are of standard
9 products listed in price catalogs, and there is very
10 little custom work. Our customers frequently cite
11 competitors' prices in contract negotiations, and
12 there is significant pressure to meet these prices in
13 order to secure orders.

14 In the area of commercial quality precision
15 ball bearings, the price that customers are
16 increasingly seeking is the China price. If the
17 orders are revoked, increased dumping by subject
18 countries will only exacerbate the already intense
19 pressure suppressing prices for miniature precision
20 bearings.

21 The value of the orders in restraining
22 import volumes and disciplining dumping is clear. As
23 the Commission has recognized repeatedly, ball
24 bearings are produced in a variety of size ranges, all
25 of which constitute one like product. Our business

1 focuses on production of miniature precision ball
2 bearings in the zero to 30 millimeter in OD size
3 range.

4 With the orders in place, imports of ball
5 bearings in this category from the subject countries
6 fell and prices for these imports rose. At the same
7 time, imports from non-subject countries have grown
8 dramatically, and the average unit value of these
9 imports have dropped.

10 Imposition of the orders led to a recovery
11 in prices that had dropped severely due to the pre-
12 order surges of dumped imports. Today those prices
13 are under significant pressure from non-subject
14 imports. Removal of the orders therefore will enable
15 subject country producers to drop their prices even
16 lower to regain volume, a pattern I understand the
17 Commission has seen in other industries.

18 Please note that as has been true through
19 the life of the orders, the market segment our company
20 competes and faces competition from producers in each
21 of the six countries covered by orders. The
22 continuing share of the segment of the ball bearing
23 market is slightly higher than subject imports' share
24 of the total ball bearing market, 15.3 percent of U.S.
25 consumption in 2004 by value.

1 There is no doubt that without the orders
2 subject producers' share of the U.S. market would be
3 far greater. As it is, dumping under the orders has
4 continued. This continued dumping, combined with the
5 increasing presence of commercial quality precision
6 bearings from China, has resulted in downward pressure
7 on prices and eroding market share.

8 As reviewed in the public staff report, the
9 U.S. ball bearing industry is suffering from
10 substantial cutbacks and a wide array of factors
11 usually looked at by the Commission -- capacity,
12 production, capacity utilization, shipments,
13 employment, wages, hours worked and operating profits
14 to name a few -- but our industry is even more
15 vulnerable to injury from increased subject imports if
16 the orders are revoked today than they were in the
17 last sunset review in 2000.

18 I want to assure you, however, that we are
19 not standing idly by. Our company has invested
20 heavily in a strategic plan to focus on higher
21 quality, higher precision bearings for large OEM
22 customers and the U.S. defense industry.

23 This transition has not been easy,
24 particularly with strong pricing pressure in the
25 commercial segment of the market. In order to make

1 progress in servicing these markets, our company has
2 invested significant amounts of time, energy and
3 resources to upgrade our equipment and secure an ISO
4 certification. These investments have only been
5 possible because of the margin of relief provided by
6 the current orders.

7 The investments are not complete. We will
8 have several years' efforts ahead of us. If the
9 orders are revoked, the subject countries will resume
10 dumping large volumes of miniature precision ball
11 bearings into the U.S. market.

12 Despite claims to the contrary in the last
13 sunset review, producers in Japan and Europe did
14 expand exports to the U.S. after other orders on
15 bearings were revoked, in some cases by 400 percent.

16 For our company, revocation of the orders
17 would be a disaster. Our business in the commercial
18 sector of the market would become so untenable that we
19 would no longer be able to support the investments
20 necessary to complete our transformation into a high
21 end, super precision miniature and instrument ball
22 bearing specialist.

23 Plus, revocation of the orders would likely
24 be the last straw for PKB. We would be forced not
25 only to give up on the strategic development we have

1 created for our business, but we would also likely be
2 forced to exit the ball bearing business altogether.

3 This outcome is, of course, of primary
4 significance to myself and my colleagues at PKB, yet
5 it also has broader ramifications that the Commission
6 should take into account. Miniature precision ball
7 bearings are a strategic product. They are a vital
8 component of aircraft, aerospace, computer and
9 guidance and navigation systems needed by the U.S.
10 government and the military.

11 If production of these strategic items were
12 to disappear from the U.S., our defense industry would
13 be forced to become dependent on overseas suppliers
14 for this critical component. I would remind the
15 Commission that during World War II we in the U.S.
16 were forced to smuggle miniature precision ball
17 bearings into the U.S. in order to assemble our
18 weapons systems.

19 After that vulnerability, the government
20 encouraged the development of the miniature precision
21 ball bearing industry by lending money and equipment.
22 Twelve companies rose. Today we are down to two U.S.
23 owned companies in this hemisphere. One is PKB, a
24 small business whose fate rests upon the continuation
25 of the orders.

1 This history shows that maintenance of a
2 viable domestic ball bearing industry is not only of
3 commercial and economic interest; it is in the
4 national interest.

5 In closing, I would like to emphasize how
6 indispensable the orders under review today have been
7 for our company. Sixteen years ago PKB was able to
8 emerge from bankruptcy and stay in business because
9 these orders curtailed the surge in dumped imports
10 from the subject countries.

11 When the orders were maintained in 2000, it
12 enabled our company to invest in a forward looking
13 strategy to remain a competitive, viable U.S. based
14 producer of miniature precision ball bearings. The
15 decision whether or not to maintain these orders will
16 determine whether we are able to continue successfully
17 pursuing that strategy or whether we will be forced to
18 shut our doors.

19 We urge you to keep the orders in place for
20 the sake of our business and the entire domestic ball
21 bearing industry. Thank you for this opportunity to
22 present our views.

23 CHAIRMAN KOPLAN: Thank you.

24 MR. BECKMAN: Chairman Koplan, Commissioners
25 and staff, good morning. I'm Steve Beckman, Director

1 of Governmental and International Affairs for the UAW.

2 The UAW represents workers who manufacture
3 ball, spherical plain and tapered bearings at more
4 than a dozen U.S. facilities. The UAW strongly
5 supports the eight antidumping orders on bearings
6 subject to this review and urges you to keep all of
7 the orders in place.

8 My comments this morning will focus on the
9 ball bearing industry, but they could apply to the
10 other products under review as well. The U.S. ball
11 bearing industry is already under threat, and our
12 members feel that threat in very real terms every day.

13 The Commission staff report reveals the
14 deteriorating condition of the ball bearing industry
15 in the past five years. Capacity, production,
16 shipments and market share have all fallen.
17 Productivity is down. As our material costs have
18 risen, prices for bearings have not kept pace with the
19 cost of production. Surging imports from China,
20 together with continued dumping by the producers
21 subject to this review, continue to erode the domestic
22 industry's ability to compete.

23 The losses for the industry are striking.
24 In the past three years, the industry saw a cumulative
25 operating income loss. Without the orders in place,

1 the losses would have been even more severe.

2 As dramatic as these trends have been for
3 the industry, the impact on workers has been even more
4 devastating. Since 2000, nearly one of every four
5 production jobs in the ball bearings industry has
6 disappeared.

7 This hemorrhaging is evident in our own
8 membership numbers. In the first sunset review I
9 appeared before the Commission on behalf of 4,000 UAW
10 members in bearing factories in the U.S. urging that
11 the present orders be maintained. Today I appear
12 before you on behalf of fewer than 3,000 UAW members.
13 Each one of these lost jobs means lost income for a
14 family, lost access to health care and maybe even a
15 lost opportunity for a secure retirement.

16 In the wake of these losses, many families
17 struggle to make ends meet, keep up with their
18 mortgage payments and continue saving for their
19 children's education. These job losses impact entire
20 communities when plants shut their doors. Each ball
21 bearing facility that closed in the past five years
22 represented a pillar of the local economy where it was
23 located supporting local small businesses and
24 contributing to the local tax base.

25 The sampling of closures since 2000 paints a

1 grim picture -- NN, Inc. in Walterboro, South
2 Carolina; Accuride International in Charlotte, North
3 Carolina, and South Bend, Indiana; the Timken plant in
4 Rockford, Illinois; NTN-BCA in Greensburg, Indiana;
5 the SKF plant in Altoona, Pennsylvania; and the Nice
6 bearing plant in Kulpsville, Pennsylvania. Three more
7 bearing facilities are slated to close by 2007.

8 The largest domestic bearing facility for
9 UAW members is of course Delphi's plant in Sandusky,
10 Ohio. Some of you will no doubt remember the moving
11 testimony of Lattie Slusher, president of UAW Local 13
12 in Sandusky, at the 2000 hearing on these orders.
13 Lattie could not join us today because of the severe
14 difficulties facing our union at Delphi, but he asked
15 me to send the Commission his regards.

16 The fight for our members' job at Delphi is
17 a top priority for our union, and the outcome will
18 have important implications for workers throughout the
19 industry. The UAW has already made large sacrifices
20 to try to keep the company viable, including through a
21 jointly agreed attrition program.

22 The president of Delphi himself has stated
23 that the Sandusky plant has the potential to compete
24 successfully, but only under new ownership. We
25 believe maintenance of these orders is central to any

1 plan to maintain production at Sandusky, whether under
2 Delphi or another operator.

3 Indeed, even with the orders in place we
4 have lost contracts for ball bearing wheel hub units
5 to SKF, including to its Italian operation. In March
6 of this year, SKF announced that it had won the
7 contract to supply wheel hub units for the new 2006
8 Cadillac STS-V, a GM car. SKF decided to manufacture
9 the Cadillac wheel hub units in Italy, one of the
10 countries subject to these orders.

11 If the orders are revoked, we can expect
12 many more of these large contracts to go overseas and
13 the volume of imports to rise dramatically. If the
14 orders are revoked, imports will surge, prices will
15 fall and more domestic manufacturers will be forced to
16 shut their doors and lay off long-time employees.
17 More UAW members will be forced to come home and tell
18 their families that the paycheck has stopped and the
19 health insurance is gone.

20 Finally, I would like to quickly address an
21 omission from the current staff report. We greatly
22 appreciate the hard work done by the staff, but in the
23 list of facilities/companies that produce bearings and
24 the positions they have taken on the orders we did not
25 see any indication of the position of the workers.

1 Both the UAW and the USW submitted lists of
2 facilities where we represent workers. Our support
3 for the continuation of the orders is not listed in
4 the chart nor apparently was it considered in the
5 summary analysis of support or opposition for the
6 orders.

7 We believe that the final staff report
8 should reflect our members' support. If there's
9 additional information that the staff might need from
10 us we would of course be pleased to provide it in a
11 posthearing submission.

12 On behalf of our members, I ask the
13 Commission to maintain the orders on bearings. A
14 thousand UAW members have lost their jobs in the
15 bearing industry since the last time I spoke before
16 you.

17 If these orders are revoked, many more good
18 paying jobs will follow. Many of these losses can be
19 prevented if the orders are kept in place and dumping
20 is effectively addressed.

21 Thank you for this opportunity to present
22 our views.

23 CHAIRMAN KOPLAN: Thank you, Mr. Beckman.

24 MR. CONWAY: Mr. Chairman, Commissioners,
25 I'm Tom Conway, the International Vice President of

1 the United Steelworkers. Steelworkers represent
2 nearly 1,500 workers who make ball bearings, spherical
3 bearings and tapered roller bearings at 12 facilities
4 in six different states.

5 The antidumping duty order under review
6 today ensures a level playing field for the American
7 bearing industry and supports good jobs for American
8 workers. The USW asks that the Commission keep the
9 orders in place for the sake of our members and the
10 domestic industry as a whole.

11 The orders under review today have the
12 important benefits for workers in the bearing
13 industry. Imports of ball bearings from the countries
14 that are subject to these orders have fallen since
15 2000, providing much needed relief to the domestic
16 bearing industry.

17 The industry is still under threat. Dumped
18 imports from the subject companies have maintained a
19 real presence in the U.S. market despite the orders,
20 and imports from countries not subject to the present
21 orders have surged.

22 As a result, the ball bearing industry has
23 lost market share since 2000, and general conditions
24 in the industry have deteriorated sharply. Capacity
25 shrunk by 22 percent. Production plummeted by 34

1 percent. Capacity utilization fell. Productivity is
2 down, and the industry is barely breaking even. These
3 losses translate into real pain for workers.
4 Employment in the ball bearing industry has dropped by
5 nearly 23 percent since the year 2000.

6 This pain has been felt firsthand by our own
7 members. In 2000, we had nearly 2,000 members
8 employed in U.S. bearing facilities that compete with
9 the imports covered by the orders under review today.
10 In 2006, that number has been slashed to less than
11 1,500 as nearly 500 workers lost a paycheck, health
12 insurance and retirement security, 500 workers who
13 have had to try and find new jobs to support their
14 families.

15 The jobs they're able to find in small towns
16 like Erwin, Tennessee; Keokuk, Iowa; and Caldwell,
17 Ohio, if they're able to find any, generally pay far
18 less and provide fewer benefits than the jobs that
19 they lost. Five hundred mothers and fathers now have
20 to struggle to make sure their kids will still have a
21 roof over their heads, the medicine they need and the
22 hope of a college education in the future.

23 The pattern of continued and resumed dumping
24 after orders on bearings as a result is all too
25 familiar. Before revocation, foreign producers will

1 swear that they'll never increase exports to the U.S.,
2 that the U.S. is an unattractive market and that their
3 products don't compete with U.S. products or that they
4 will never dump on a market in which they also invest
5 in production.

6 After revocation of course it's a different
7 story. U.S. imports of Japanese tapered roller
8 bearings tripled in value in the five years after
9 antidumping orders were revoked. Unit values dropped
10 sharply after revocation, but picked back up as raw
11 material costs increased.

12 We imported more than four times as many
13 spherical plain bearings from Japan in 2005 as we did
14 in 2000 when orders were revoked. Meanwhile, the
15 average unit value of these imports plummeted by
16 nearly 70 percent after revocation.

17 U.S. imports of cylindrical roller bearings
18 from Germany in 2005 were nearly five times the
19 quantity we imported in 2000 when orders were revoked.
20 As volume surged, unit values dropped by 60 percent.
21 The quantity of spherical plain bearings imported from
22 Germany shot up by 438 percent since revocation in
23 2000, and again unit values fell.

24 Now some of the same producers again assure
25 us that the imports won't increase if the orders are

1 discontinued. The Steelworkers, which represents
2 workers employed by some of the U.S. operations of the
3 foreign producers making these claims, respectfully
4 disagree. Hopefully this time we won't have to rely
5 on empty promises and can rely instead on the record.

6 If the present orders on bearings are
7 revoked, we can expect more of the same. Foreign
8 producers no longer subjected to the discipline of our
9 trade laws will be free to dump product on the U.S.
10 market, undermining U.S. producers and destroying good
11 American jobs.

12 While the economic impact of unfair trade on
13 the industry and our members clearly calls for
14 continuation of these orders, another factor that
15 should be weighted in the decision is national
16 security. Our domestic bearing producers are
17 strategic players in keeping our military ready for
18 the challenges they face around the world.

19 Workers in the ball bearing industry make
20 miniature and precision bearings which are used in a
21 broad array of vital defense applications, including
22 aircraft, missile, navigation and guidance systems,
23 tanks and weapons systems.

24 Similarly, spherical plain and tapered
25 bearings have a wide range of applications in defense

1 industry goods. These bearings are of strategic value
2 to the U.S. If we lose the capacity to produce them
3 because of unfair trade practices our defense
4 initiative will have no choice but to rely on foreign
5 suppliers for these vital components.

6 According to new Department of Defense
7 regulations, Buy America requirements for bearings can
8 be waived if domestic supplies are inadequate.
9 Nothing in the regulation helps to ensure that
10 strategic industries battered by unfair trade
11 practices will survive.

12 In fact, decimation of the domestic industry
13 by foreign producers serves to justify relying on
14 those very same foreign producers for our vital
15 strategic defense. Thus, the only sure way to prevent
16 this hollowing out of our strategic industries is to
17 vigorously enforce our trade laws.

18 In cases such as this one, effective trade
19 laws are the first line of defense not only for our
20 national economic interests, but also for our national
21 security interests.

22 The United Steelworkers urges the Commission
23 to keep the present orders in place. These orders
24 enable a strategic industry to survive, and they allow
25 our workers to compete in a rules-based system based

1 on their skills and productivity instead of competing
2 in a relentless race to the bottom.

3 Thank you for this chance to present our
4 views today.

5 CHAIRMAN KOPLAN: Thank you, Mr. Conway.

6 MR. GRIFFITH: Good morning. My name is
7 James Griffith. I'm the president and chief executive
8 officer of the Timken Company.

9 Our chairman, Tim Timken, has testified
10 about the ball bearing and spherical plain bearing
11 domestic industries and our company's view as to why
12 the antidumping orders need to be maintained on these
13 products.

14 I would like to review with you the need to
15 maintain the order on tapered roller bearings from the
16 People's Republic of China. Let there be no mistake.
17 The revocation of the order on tapered roller bearings
18 from China is the most serious challenge to the
19 survival of the domestic tapered roller bearing
20 industry.

21 Because most data from the tapered roller
22 bearing sector has been redacted in the public staff
23 report, I will largely refer to information contained
24 in our questionnaire, our prehearing brief or from
25 government statistics.

1 As the Commission is aware, Timken is a
2 major producer of tapered roller bearings in the
3 United States. It is my belief that Timken's
4 experience is reasonably similar to that of the entire
5 domestic industry.

6 The founder of the Timken Company, Henry
7 Timken, invented the tapered roller bearing in 1899.
8 As we stated in our 2005 annual report, he created
9 customer value by solving a critical technical issue,
10 reducing friction in order to improve productivity.

11 Creating customer value remains the vision
12 of our company. We invest heavily in research and
13 development to help solve our customers' problems.
14 However, the ability to continue creating such value
15 depends on the ability to generate an adequate return
16 on capital invested. When this doesn't happen, we are
17 forced to reduce R&D and capital expenditures, close
18 facilities and lay off valued Timken associates.

19 Because demand for tapered roller bearings
20 is derived from end use markets which have been
21 extremely strong, one would have thought that the last
22 few years would be great years for the domestic
23 tapered roller bearing producers. I can tell you this
24 is not the case in our domestic operations.

25 While much of the U.S. economy is near a

1 cyclical peak, the profitability for our U.S. tapered
2 roller bearing business has declined in the past three
3 years. Pricing continues to be under extreme pressure
4 and margins have declined. We have closed one large
5 plant and are in the process of closing two more.

6 Despite these moves and the loss of over
7 1,200 jobs in America, we are not achieving our cost
8 of capital and have reduced capital expenditures and
9 U.S. capacity in these products. It is a classic
10 outcome of dumping.

11 As the Commission has recognized many times,
12 ours is a capital intensive industry. This means
13 competitors often sell products at depressed prices to
14 maintain capacity utilization. This is why efforts to
15 assure fair trade have been so important to our
16 company.

17 Depressed prices flowing from dumping starve
18 us of the cash we need to stay at the cutting edge and
19 ensure that value can be delivered year after year to
20 our customers. Demand for tapered roller bearings is
21 currently very strong. However, there are signs that
22 pricing pressure will increase in the next few years
23 due to industry dynamics and the resurgent imports
24 from Japan following the revocation of the order in
25 2000.

1 Demand in some key markets such as
2 agricultural equipment appears to have peaked. Others
3 -- for example, heavy trucks -- are projected to
4 decline in the very near future. In other sectors of
5 our market key customers are in substantial
6 difficulty, including large producers in the
7 automotive sector such as General Motors, Ford and the
8 Dana Corporation.

9 This is a condition of competition that was
10 not present in the first review. In 2000, the
11 beginning of the current period of review, the three
12 companies enjoyed a profit of \$8.3 billion. Compare
13 that with last year, 2005, when the companies had a
14 net loss of over \$18 billion. Dana is now operating
15 under Bankruptcy Court protection.

16 When large OEM customers such as these post
17 such staggering losses they are forced to slash costs.
18 They can't afford to wait for improvements in product
19 design, quality or customer service to increase their
20 sales and return them to profitability. Their
21 suppliers, including Timken, are under extreme
22 pressure to reduce prices.

23 We know that Ford and GM have buyers in
24 China looking to qualify Chinese companies to supply
25 them with automotive parts at prices substantially

1 below what U.S. producers can match.

2 With this background of already declining
3 returns in our U.S. operation and severe customer
4 price pressure, let me turn to the likely effect on
5 the domestic industry from revocation of the dumping
6 order from China.

7 You may ask why the U.S. tapered roller
8 bearing industry cares about the order on imports from
9 China. Based on dollar amounts, imports appear to be
10 a small percentage of consumption. In addition, three
11 Chinese companies are already excluded from the order,
12 and there is a dramatic growth in demand in China.

13 What risks exist to domestic producers in
14 such an environment? Let's begin with the growth of
15 the Chinese economy.

16 MR. GRIFFITH: which is of course one of the
17 economic success stories over the last 20 years. With
18 the rapid development of a wide range of industries in
19 China demand for tapered roller bearings and other
20 bearings has truly exploded. Despite that growth
21 bearing capacity expansions in China are outstripping
22 local demand.

23 This has resulted in a rapid increase in
24 exports. The public staff report shows exports of
25 tapered roller bearings from China growing 266 percent

1 from 2000 to 2005. On a value basis those exports
2 grew by 588 percent. This phenomenal growth occurred
3 during a period of booming domestic demand in China.

4 While China does import some specialty
5 tapered roller bearings its trade surplus has actually
6 increased faster than its base of exports. China's
7 trade surplus on tapered roller bearings grew from 23
8 million units in 2000 to 115 million in 2005, an
9 increase of 384 percent.

10 These numbers may mean little to the
11 Commission, but they mean a lot to the Timken Company.
12 China's reported existing surplus in the trade of
13 tapered roller bearings was greater than half, 50
14 percent, of the entire output of Timken's U.S.
15 operations.

16 Timken sells many high volume part numbers
17 that have become common industry design. We did an
18 analysis of the web pages of 16 Chinese producers
19 subject to the TRB order. Not surprisingly a large
20 number of the high volume part numbers were listed by
21 many of these Chinese producers.

22 Comparing Timken's volume in three of its
23 major U.S. manufacturing facilities the part numbers
24 listed on the web page included items that made up 95
25 percent of the output of one plant and 40 to 50

1 percent of the volume of the two other plants.

2 The existing capacities of tapered roller
3 bearing manufacturers pose a very serious challenge to
4 the U.S. industry. On top of that Chinese bearing
5 producers have indicated they will continue to
6 aggressively expand capacity.

7 Let me make clear that the anti-dumping
8 order on imported tapered roller bearings from China
9 has been beneficial. When we compare the imports from
10 China to that of Japan where the order was revoked in
11 2000 we see a dramatic difference.

12 Since the order on tapered roller bearings
13 from Japan was revoked in 2000 U.S. imports from Japan
14 have more than tripled despite Japanese promises that
15 wouldn't happen. In contrast during the same period
16 while U.S. import data show a significant increase
17 from China it is only about one-third of the increase
18 from Japan.

19 This is despite the fact that three Chinese
20 companies are outside of the order. The relatively
21 small increase to the U.S. in exports from China is
22 not typical of the general pace of tapered roller
23 bearing exports from China. Chinese exports of
24 tapered roller bearings have increased nearly sixfold
25 to the rest of the world while only doubling to the

1 United States.

2 This focus of Chinese exports on markets
3 other than the United States is a direct result of the
4 anti-dumping order in the United States. If the order
5 is revoked exports from China will dramatically
6 increase to the United States.

7 The challenge to U.S. tapered roller bearing
8 production facilities and workers is much greater in
9 2006 than it was in 1999 because of the growing
10 sophistication of the Chinese bearing industry. There
11 has been tremendous foreign investment in Chinese
12 bearing industry over the last six years.

13 Large foreign producers have invested to
14 participate in the growing Chinese market. These
15 major foreign producers have worked with the Chinese
16 steel facilities to assure appropriate quality, have
17 worked with Chinese machinery manufacturers to secure
18 equipment capable of meeting western quality needs and
19 trained literally thousands of Chinese workers to
20 produce high-quality products.

21 In our prehearing brief we detail in more
22 specifics the improved capabilities of Chinese
23 suppliers to the bearing industry. Obviously such
24 companies are serving local companies as well as
25 international companies resulting in an increase in

1 the capabilities in a wide spectrum of Chinese
2 producers.

3 It is my firm belief that China today stands
4 in tapered roller bearings exactly where Japan stood
5 in the early 1980s, prepared to challenge most
6 segments of the U.S. markets and use aggressive
7 pricing to achieve rapid penetration. It's what Japan
8 did then and what China is poised to do today.

9 We are asked by nearly every major customer
10 when we will offer them a China price on tapered
11 roller bearings. We know that most of the major
12 customers are actively working on finding Chinese
13 sources of supply, many having opened purchasing
14 offices in China and relocating key staff there.

15 U.S. auto makers have encouraged their
16 suppliers to source products in low-cost countries
17 typically with a focus on China. Moreover global auto
18 companies are growing rapidly in China building up the
19 quality of the Chinese auto parts industry. This
20 makes the China of 2006 an even greater danger to the
21 U.S. producers than Japan of the 1980s.

22 U.S. purchasers are actively pursuing
23 Chinese sources not simply responding to sales
24 initiatives as they did when Japanese producers in the
25 1980s. All of the above indicates that the challenges

1 being faced by the U.S. tapered roller bearing
2 producers because of growing Chinese capacity are
3 real, immediate and multi-faceted.

4 Indeed China presents the most serious
5 challenge to the survival of the domestic industry
6 that I or my colleagues have ever seen. The China
7 Respondents would have you believe they do not present
8 any challenge to the U.S. industry in the event the
9 order is revoked. My experience tells me otherwise.

10 Without the anti-dumping order the barriers
11 to entry will rapidly fall. This will lead to a
12 significant and irreparable harm to U.S. producers.
13 Let me tell you why.

14 First as the staff report indicates more
15 than half the purchasers who responded rated U.S. and
16 Chinese tapered roller bearings as comparable in terms
17 of whether they meet or exceed industry standards.
18 Second we have domestic automotive OEM customers using
19 Chinese prices as leverage in negotiating sales
20 prices.

21 Third we know of major OEM customers who are
22 currently in the process of testing Chinese producers'
23 tapered roller bearings even with the orders in place.
24 Fourth major multi-national producers such as SKF,
25 NSK, FAG and Koyo have tapered roller bearing

1 facilities in China.

2 All of these producers are qualified to
3 serve major OEM automotive customers in the United
4 States and therefore can accelerate qualification
5 procedures for their Chinese product. In summary
6 revocation of the order would lead to a significant
7 increase in imports from China at prices dramatically
8 below U.S. prevailing prices.

9 Chinese exports have grown dramatically
10 around the world every year despite the rapid demand
11 growth in China. This isn't speculation, it's a fact.
12 Higher quality levels are being achieved continuously
13 by Chinese producers. Large capacities are being
14 added by both Chinese and foreign producers.

15 Consequently most parts of the U.S. market
16 can be challenged by Chinese product in the reasonably
17 foreseeable future. Therefore, our U.S. tapered
18 roller bearing operations and the industry overall
19 will experience injury if the order on Chinese tapered
20 roller bearings is revoked.

21 We ask the Commission to find in the
22 affirmative and maintain this important order. Thank
23 you.

24 CHAIRMAN KOPLAN: Thank you.

25 MR. KAPLAN: Good morning, Chairman Koplan

1 and Commissioners. I am Seth Kaplan of CRA
2 International. I have been asked by counsel for the
3 Petitioners to conduct a series of studies and
4 analyses regarding the affects of revoking the orders
5 against imported ball bearings and tapered roller
6 bearings.

7 In conducting my research I have relied on
8 the confidential record developed in this review,
9 client interviews and on proprietary and public
10 sources of information regarding the domestic industry
11 for ball bearings and tapered roller bearings.

12 The conclusions of these studies are as
13 follows. First both the ball bearing and tapered
14 roller bearing industries are vulnerable both
15 absolutely and to increased subject imports.

16 Second under the conditions of competition
17 present in the ball bearing industry subject multi-
18 national bearing producers have strong incentives to
19 import significantly increased volume of low-priced
20 bearings into the United States.

21 Third given the inelastic demand for
22 bearings and the high substitutability between
23 domestic and subject bearings as recognized by the
24 staff increased subject imports would have materially
25 negative affects on industry prices, shipments,

1 revenues, profits and return on assets.

2 The first two studies, one regarding the
3 financial performance of the domestic industry and a
4 second measuring the affects of revocation, are
5 attached as exhibits to the briefs. A third study
6 analyzing the incentives of multi-national producers
7 to expand exports to the United States should the
8 orders be revoked will be attached to the post-hearing
9 brief.

10 Let me briefly discuss my findings. As a
11 threshold matter our study of financial performance of
12 the ball bearing and TRB industries shows
13 vulnerability both absolutely and to even modest
14 increases in the volume of subject imports.

15 Given the vulnerability of the ball bearing
16 industry I next turn to the incentives of multi-
17 national producers to expand their exports to the
18 United States. Before beginning that analysis I wish
19 to note the obvious. There are no disincentives to
20 increased exports from subject producers that do not
21 have U.S. operations or from resellers of gray market
22 goods.

23 Several major ball bearing manufacturers are
24 multi-national enterprises that do in fact produce
25 different types of ball bearings in several countries

1 including the United States. These multi-national
2 enterprises maximize their profits of the enterprise
3 as a whole rather than the profit from operations in
4 each country.

5 That's fundamental to their operations.
6 Both the theory and practice of multi-national
7 enterprises demonstrate that with the conditions of
8 competition in the domestic ball bearing industry the
9 location of foreign owned facilities in the United
10 States will not deter increased volumes of low-priced
11 imports should the orders be revoked.

12 The subject multi-nationals can adopt five
13 separate potential strategies to increase their
14 overall profitability should the orders be revoked.

15 They could import ball bearings that do not
16 compete with and sometimes compliment their existing
17 U.S. production; they can switch U.S. production to
18 ball bearings that do not compete with the types of
19 ball bearings that would be imported after revocation;
20 they could relocate U.S. facilities to third countries
21 and serve the U.S. market from formerly subject
22 countries; they can consolidate some or all of their
23 production back in the subject country; and they can
24 increase imports of products for which their U.S.
25 facilities are operating at full capacity.

1 The first two strategies benefit their U.S.
2 operations at the expense of rival domestic producers
3 causing injury to the industry as a whole. The latter
4 three strategies while increasing overall multi-
5 national profitability injure both their own and their
6 rivals' U.S. operations.

7 To the extent these strategies have already
8 been partially adopted, revocation would accelerate
9 and complete the process. The Commission has seen the
10 importation of compliments for example in wooden
11 bedroom furniture. There the Commission recognized
12 that imports that benefit one U.S. company can injure
13 other U.S. producers in the industry as a whole.

14 The ability to successfully adopt these
15 strategies is a consequence of the key conditions of
16 competition peculiar to the ball bearing industry:
17 Economies of scale and production; a high degree of
18 substitutability across producers coupled with some
19 differentiation within the product; flexibility of
20 assets across ball bearing products and across
21 locations and moderate transport costs.

22 In contrast it would not be profit
23 maximizing for foreign-based multi-nationals to
24 refrain from increasing imports and I believe their
25 claims ring hollow when the economics of their

1 operations are closely examined.

2 This is because the U.S. market in ball
3 bearings is competitive and it precludes the U.S.
4 operations of foreign multi-nationals from exercising
5 market power, the one economically justifiable reason
6 for not increasing imports.

7 This is due to the other potential
8 suppliers: Domestic producers within the same product
9 line; subject multi-nationals that produce abroad but
10 not in the U.S.; and nonsubject producers with
11 facilities abroad.

12 Given all this potential entry, conditions
13 of competition that actually exist in the marketplace,
14 Respondent claims of refraining from additional
15 importation contradict their profit maximizing
16 strategy. Subject producers currently have and in the
17 past exported large quantities of ball bearings
18 despite significant dumping margins and U.S.
19 production operations.

20 SKF for example expends significant effort
21 to manage their margin, raising their U.S. prices to
22 minimize duties subject to maximizing firm
23 profitability. These restraints, these disciplines
24 would no longer exist if the orders were not in place.

25 Subject ball bearings currently account for

1 over 13 percent of domestic consumption. This is
2 itself strong evidence that absent the orders import
3 volumes would increase and prices would fall. I wish
4 to point out that in many industries imports subject
5 to order completely exit the market.

6 This is not the case in this industry. I
7 wish to point out that some of the analysis by
8 Respondents looks at the industry of this as an
9 original investigation. They look where competition
10 currently exists in the marketplace because they still
11 hold significant share.

12 Should the disciplines be gone they would
13 clearly be more competitive in the markets and the
14 products where they currently are and they'd lose the
15 discipline in products where they aren't. This is
16 unlike a case where there are no imports when the
17 order is in place and the Commission is thinking how
18 will the foreign industry react?

19 Will it go back to how it was before? Here
20 we see where they are with the orders in place. With
21 a relative price change and those orders gone there
22 would be an increase in volume and a lowering of
23 prices. The fact that these same firms increased
24 volumes of imports after revocation of dumping orders
25 on other bearings is further evidence that import

1 volumes would increase and prices would fall.

2 We've had a controlled experiment. For
3 example TRB imports from Japan surged into the
4 domestic market following revocation. These actions
5 are consistent with case studies of multi-national
6 behavior. Thus the theoretical and empirical evidence
7 demonstrate that the subject multi-national arguments
8 regarding post-order behavior are unsupported.

9 Finally our third study measures the affects
10 of increased quantities of low-priced imports on the
11 U.S. bearing industries. We use an economic model
12 similar to those adopted by the Commission in making
13 safeguard remedy determinations to the President and
14 analyzing the affects of potential and existing trade
15 agreement and conducting industry competitiveness
16 studies at the request of Congress.

17 Two of the major inputs to this model are
18 the elasticity of demand and substitution. The staff
19 asked for comments on their evaluation of these
20 parameters. With respect to the demand elasticity we
21 agree with staff that it is very inelastic and we
22 agree with their reasoning.

23 There are substitutes for these products and
24 they are generally a small cost component of the final
25 products in which they're incorporated. We also agree

1 with the staff's continued characterization of high
2 substitutability between domestic and subject
3 bearings.

4 As the Commission may recall, the staff
5 reached the same conclusion in the first review and
6 they reached a similar finding in the China ball
7 bearings investigation, although the countries in
8 question were not identical. In reaching this
9 conclusion during this review the staff found that
10 purchasers described U.S. and subject ball bearings
11 frequently competing in the "many ball bearing end
12 uses."

13 That's a quote from the staff report. I
14 wish to add that companies capable of exporting from
15 the subject countries are highly technologically
16 sophisticated enterprises with significant R&D and
17 capital budgets.

18 These firms are most like the domestic firms
19 supporting continuation in terms of technology, OEM
20 qualification and ability to produce. These are the
21 head-to-head rivals of the domestic industry. These
22 are all the firms that compete for the same contracts.

23 So this order in affect separates the most
24 substitutable and most competitive firms from each
25 other and should that be removed you will see

1 increased volumes and lower prices.

2 Given the elasticity parameters, the current
3 availability of subject excess and divertable capacity
4 which there is much of as the staff report
5 demonstrates their continued presence in the U.S.
6 market despite the orders, their incentives as a
7 multi-national enterprise facing the conditions and
8 the competition in the U.S. market we have estimated
9 that revocation of the ball bearing orders would lead
10 to an increase in imports that would materially
11 depress prices, lower production, shrink revenues and
12 harm industry profits and the ability to invest.

13 In the case of TRBs we estimate that
14 increases in Chinese export subsequent to planned and
15 announced increases in capacity as well as their
16 ability to ship from other foreign markets to the
17 United States would have materially deleterious
18 affects on the domestic TRB industry, and this does
19 not incorporate the Chinese price affect whereby U.S.
20 industries such as autos use the threat of outsourcing
21 in China as a means to extract price concessions.

22 Let me briefly summarize my results. The
23 industries are vulnerable. The presence of domestic
24 operations of the subject firms does not insulate the
25 U.S. industry under current conditions of competition,

1 and unconstrained dumped imports would cause material
2 injury.

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

5 MR. STEWART: Mr. Chairman, that concludes
6 our direct presentation.

7 CHAIRMAN KOPLAN: Thank you very much, Mr.
8 Stewart, and thank you to all of the witnesses for
9 your presentations this morning. Appreciate your
10 coming and taking the time to be with us. It's most
11 helpful. I also appreciate the fact that you
12 submitted the text of your statements to us in advance
13 of the hearing this morning. That also I found
14 helpful.

15 Just a couple of matters for us before we
16 start the questioning. First Vice Chairman Okun is
17 recused from these investigations and that is the
18 reason why she is not present today, so you do have
19 all of us who are participating and we'll be voting on
20 these investigations.

21 Secondly because of the number of witnesses
22 if you would reidentify yourselves each time you
23 respond to a question it will be helpful to the
24 reporter, so please remember to do that.

25 With that we'll begin the questioning with

1 Commissioner Hillman.

2 COMMISSIONER HILLMAN: Thank you.

3 I would like to welcome you as well to this
4 hearing. I think it's a welcome back for the vast
5 majority of you. We very much do appreciate the time
6 and the effort that you've spent to be here today and
7 for all of the tremendous volume of information that
8 was presented in the prehearing briefs as well as in
9 your statements.

10 The sunset hearings are always an
11 interesting way of on the one hand looking forward,
12 which is our task, what will happen in the future and
13 on the other hand we obviously have a wealth of data
14 of what has happened. In order to help me sort of
15 marry those two things together I want to focus if I
16 could first on the issue of demand.

17 We obviously have a lot of data in here on
18 what has happened over the course of the last five
19 years.

20 You, Mr. Griffith, spoke very clearly on
21 some of the demand issues with respect to the tapered
22 roller bearings, but if we can look more broadly. We
23 have great representation here on the auto side, the
24 steel workers' side as well as the industry. Going
25 forward what do you see as the demand for these

1 products? Will it vary by end use?

2 Will it vary specifically by sectors whether
3 you're talking about automotive OEMs versus will it
4 vary by custom versus standard? What do you see in
5 the U.S. market in terms of demand very specifically
6 for ball, for spherical and for tapered roller
7 bearings?

8 MR. GRIFFITH: Perhaps I can start. This is
9 Jim Griffith. In general as we look at our markets
10 the years 2004 and 2005 have been periods of strong
11 demand and they have been strong demand -- to put it
12 in perspective it is the first time since 1973 that we
13 have seen spikes in demand from the heavy truck
14 industry, the rail industry, the construction mining
15 equipment industry and general industry and that has
16 created some interesting dynamics in the market.

17 The general level of demand from industry to
18 support the build-up in China continues to be strong
19 and we anticipate in public in the market that we see
20 the general level of industrial demand as strong.
21 There are as I indicated in my testimony some
22 exceptions to that.

23 The demand from the domestic auto makers has
24 fallen off and fallen off significantly. It's being
25 replaced by transplant auto makers, but they do not

1 consume the same number of anti-friction bearings in
2 the United States because they import transmissions
3 and axles already built up in a CKD manner.

4 The heavy truck industry peaked this year.
5 Due to EPA regulations it will decline 30 or 40
6 percent next year. The agricultural market also is
7 projected to decline next year.

8 So overall what we see is in the smaller end
9 of our product whether it's ball bearings or tapered
10 bearings a lessening of demand over the next couple of
11 years, a strong demand in the infrastructure, heavy
12 equipment markets, which we expect to last for the
13 next two or three years.

14 COMMISSIONER HILLMAN: Others?

15 Mr. Swinehart?

16 MR. SWINEHART: Bob Swinehart. I agree with
17 those comments. Maybe a simplistic way of thinking
18 about demand for bearings is just think about the
19 number of turning shafts, or axles, or wheels, or
20 whatever that we would have in the economy. When
21 manufacturing is operating at fairly high capacity
22 levels then you have industrial demand for bearings.

23 The three hot industries right now for
24 bearings: material handling, trucks that were just
25 commented on, trains. If you look at the government

1 data on shipments all of those are at very, very high
2 record levels, so currently demands from the
3 transportation sector are quite high.

4 I suspect those will continue to grow.
5 Physical distribution of product is not something that
6 can leave the United States. In fact when our ports
7 are quite busy our trucking industry and our railroad
8 industry is quite busy. So I think that these various
9 indicators would tell us that we'll have a fairly
10 steady growth for bearing demand.

11 COMMISSIONER HILLMAN: Mr. Sperrazza, if I
12 turn back to you on the mini precision ball bearings
13 what would you say demand in your little segment of
14 the market would be going forward?

15 MR. SPERRAZZA: Commissioner Hillman, I
16 would say that demand -- you're talking about U.S.
17 demand?

18 COMMISSIONER HILLMAN: Correct. U.S.
19 demand.

20 MR. SPERRAZZA: It has shifted. Basically
21 the lower ends of the marketplace have gone overseas,
22 the higher ends have remained here and those volumes
23 are reasonably steady and growing. The other stuff
24 has substantially gone offshore. However, we have
25 supplied those offshore people, our customers offshore

1 have picked up.

2 I think the demand overall has been steady
3 to growing.

4 COMMISSIONER HILLMAN: Okay. All right. If
5 I then look there's a lot of sort of more anecdotal
6 information in the record in terms of the balance
7 between the demand which you've described generally as
8 pretty strong over the last couple of years versus the
9 supply domestically.

10 That goes specifically to the issue of
11 whether or not domestic purchasers for ball bearings
12 and the other subject bearings have or have not been
13 put on allocations, how significant these allocations
14 have been, what is the ability of the domestic
15 industry in light of some of the declines in overall
16 capacity and other numbers that we've clearly seen and
17 you've talked about.

18 Help me understand how you perceive the
19 supply/demand balance in the U.S. market.

20 MR. GRIFFITH: Commissioner Hillman, this is
21 Jim Griffith again. Let me address that first because
22 I think the bigger issue has existed in the tapered
23 roller bearing business and it's why I described the
24 demand in 2004 and 2005 as a 30 year spike.

25 We saw a 50 percent increase in the demand

1 for railroad bearings, 40 percent increase in the
2 demand for highway truck bearings, relatively strong
3 SUV markets before the gas prices went up, AG market
4 strong, et cetera, and none of this was forecast.

5 What happens in our industry when you have a
6 rapid change -- the bearing industry is a very high
7 skill industry. It takes three to six months to train
8 an employee to make new bearings, and so when a
9 customer walks in and says we need 50 percent more
10 than we needed last month you can't satisfy them.

11 That has its own set of industry dynamics.
12 There were allocations put in the market, et cetera,
13 et cetera, et cetera, trying to balance the impact of
14 that on your customers. We are over that period in
15 the vast majority of our industry.

16 COMMISSIONER HILLMAN: So you would say
17 there are no allocations today? No customers on
18 allocation?

19 MR. GRIFFITH: That is a general correct
20 statement. There are a few small segments, for
21 example aerospace, where it still -- there are
22 backlogs in our factories in some specific heavy
23 industry product, but for the vast majority we are
24 beyond that point in the marketplace.

25 The other impact that happens in that point

1 and this is one of the reasons I am so fearful of the
2 revoking of this order is it forces customers to go to
3 suppliers that they have never used before, and so
4 when we put a customer on allocation and they want to
5 make trucks and they go to all the domestic bearing
6 companies and no one can ramp up fast enough they go
7 to China and they try them.

8 That happened exactly to us last year. We
9 went and raised prices in the heavy truck industry and
10 the entire heavy truck trailer industry turned to
11 China. Qualified them and they now are dominant in
12 that segment. So it is part of this industry dynamic
13 that really concerns me in terms of the removal of
14 tariffs at this point.

15 COMMISSIONER HILLMAN: Now, you describe it
16 as more heavily affecting the tapered industry, the
17 tapered segment.

18 MR. GRIFFITH: I was answering specifically
19 for the tapered segments.

20 COMMISSIONER HILLMAN: Other comments with
21 respect to either ball bearings or spherical plain
22 bearings?

23 Mr. Swinehart?

24 MR. SWINEHART: Bob Swinehart. I personally
25 do not know of any allocations on ball bearings or

1 spherical plain.

2 COMMISSIONER HILLMAN: Mr. Timken, I see you
3 nodding your head. Did you have something you wanted
4 to add?

5 MR. TIMKEN: Yes. Tim Timken. That would
6 be our experience as well on the ball bearing
7 products.

8 COMMISSIONER HILLMAN: No allocations for
9 any customers on the ball side?

10 MR. TIMKEN: No.

11 COMMISSIONER HILLMAN: Mr. Sperrazza?

12 MR. SPERRAZZA: Commissioner, no allocations
13 whatsoever.

14 Giving a little more thought to your
15 question on demand for ball bearings and particularly
16 miniature ball bearings I'd say the demand worldwide
17 has increased somewhat but has shifted away from the
18 United States, but the capacity to make them has risen
19 dramatically with the new plants in Singapore, and
20 Thailand and particularly China coming onstream so
21 that the competition within the United States is
22 extremely intense.

23 We have much less a chance of obtaining
24 business in Asia than they have let's say from
25 obtaining business here.

1 COMMISSIONER HILLMAN: Appreciate those
2 answers. Thank you.

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

5 COMMISSIONER LANE: Good morning, and
6 welcome to the morning panel.

7 Mr. Timken, I'd like to start with you. In
8 your prepared statement you indicated your opinion
9 that the ball bearing industry in the United States is
10 vulnerable. You referenced public data in the record
11 including Table 1-1 at page 1-4 of the staff report.
12 Others on this panel have referenced the same
13 declining profitability of the domestic industry.

14 We clearly have a lot of data in the record
15 and the decline in profitability of the domestic
16 industry is evident. From your perspective please
17 tell me what are the major factors that are
18 contributing to the decline in profitability of the
19 domestic industry, and after you answer I will welcome
20 anybody else that wants to add their perspective to
21 this question. Thank you.

22 MR. TIMKEN: Thank you, Commissioner Lane.
23 This is Tim Timken. I think the primary driver in the
24 decline in the profitability of the ball bearing
25 industry in the United States, a lot of the factors

1 ultimately lead back to the imports that we're seeing
2 into the U.S. and the impact that's had on pricing.
3 Obviously that is our concern going --

4 COMMISSIONER LANE: Are those the subject
5 imports or nonsubject imports?

6 MR. TIMKEN: I would say both. Obviously
7 with China not being covered by the order and the
8 increase that we've seen in imports from that country
9 that obviously sets a floor. We've also seen the
10 subject countries as well bringing products in at
11 relatively high levels, and obviously if those orders
12 are pulled there is a very real possibility that they
13 will spike their imports into the United States.

14 I mean, that's the primary driver. We have
15 seen some shift in manufacturing in the United States,
16 so from the demand side there have been some changes
17 as well, but really the impact that we're seeing is
18 the imports coming into the U.S.

19 COMMISSIONER LANE: Does anyone else care to
20 add to that?

21 (No response.)

22 COMMISSIONER LANE: I have some questions
23 about the wide variety of products within each
24 category of bearings and I hope that you can help me
25 get a handle on this issue.

1 Mr. Griffith touched on the apparent low
2 relative values of TRBs from China. For example staff
3 report on Tables 1-10 and 1-11 indicate that subject
4 TRBs from China have a relatively small total value as
5 compared to the domestic market yet the volume of
6 subject TRBs from China appear to be a relatively
7 large number of bearings.

8 Could you please tell me what is going on
9 here? Why did the volumes of subject TRBs from China
10 appear to be so large yet the relative value of those
11 bearings appear to be so small? How should these
12 differences in relative value factor into our
13 decision?

14 MR. GRIFFITH: Can I ask a question of
15 order? I'd like to come show you an example off the
16 table. Can I do that and still speak or do I have to
17 show you and speak first?

18 COMMISSIONER LANE: That's Mr. Griffith,
19 right? Thank you.

20 MR. GRIFFITH: This is Jim Griffith.
21 Commissioner Lane, if I could I would like to show you
22 an example of exactly what makes that happen. This is
23 a standard high-volume tapered roller bearing
24 application would have been in a wheel bearing, in a
25 car originally, today might be used as a wheel bearing

1 in a golf cart or a wheel bearing in a boat trailer.

2 I'll put another example over here. One of
3 those is made in the United States and one is made in
4 China. They're both taken off the shelf of an
5 automotive after market store in the United States.
6 From a physical point of view they're absolutely
7 interchangeable, they're sold as interchangeable in
8 the marketplace.

9 The truth is if you put it on a test stand
10 the Timken bearing would last somewhere between five
11 and 10 times as long, but let the buyer beware.

12 COMMISSIONER LANE: Mr. Timken's smiling
13 back there when you said that.

14 MR. GRIFFITH: From an OEM point of view
15 what that means is an OEM who has a low load
16 application where they don't test the bearing will
17 always want to buy something that's cheaper. This
18 Chinese bearing would sell in the marketplace for 50
19 percent or less.

20 It has no relation to cost, but that is what
21 it would sell for because it's the only thing they
22 have to sell. The same thing in the automotive
23 aftermarket because there is a significant excess
24 demand in China. They have 100 percent fixed cost,
25 they are marginally pricing it and therefore if you

1 look at the unit cost of that unit price of that in
2 the market --

3 COMMISSIONER LANE: You mean excess capacity
4 not excess demand?

5 MR. GRIFFITH: Yes. They have excess
6 capacity in China. I'm sorry. Therefore they are
7 selling at a marginal cost and at 50 percent or less
8 of the prices that would be normal for domestically
9 produced product in this market.

10 COMMISSIONER LANE: Thank you.

11 MR. STEWART: Commissioner, if I could just
12 add to that?

13 COMMISSIONER LANE: Yes, Mr. Stewart.

14 MR. STEWART: It is obviously the case that
15 in a product line you go from very small bearings to
16 very large bearings. There are tapered roller
17 bearings that sell for many thousands of dollars that
18 are made in very small quantity.

19 Mr. Griffith in his testimony and in the
20 examples he presented you was referring to high volume
21 part numbers. It is those high volume part numbers
22 that we in the prehearing brief had identified and
23 then on the slides were identified as equating to 40
24 to 95 percent of three of Timken's major facilities.

25 Those sizes would not be obviously the ones

1 that are used on big construction equipment, or on
2 railroad bearings, or things like that that would have
3 higher average unit values. The public staff report
4 does not show what the value of subject tapered roller
5 bearings is, and so we would only know what the total
6 imports from China would be.

7 COMMISSIONER LANE: Thank you. When I look
8 at the production and exports of subject bearings from
9 each of the countries in this case it is clear that
10 they are significant in the worldwide export markets.
11 However, it is not so clear that the bearings they are
12 exporting to countries other than the United States
13 could be sold in the United States market if the
14 orders were revoked.

15 Could you shed any light on the production
16 capacity of subject foreign manufacturers and whether
17 the same type and quality of bearings they are
18 currently making and exporting would enter the U.S.
19 market if the orders were revoked, or would they have
20 to retool or restart facilities to produce bearings
21 that you would expect to enter the domestic market in
22 large quantities?

23 MR. STEWART: Let me start with that -- this
24 is Mr. Stewart -- if I could, Commissioner. We did
25 supply in the prehearing brief a lot of information on

1 capacities in the various foreign countries.

2 We also supplied as part of the
3 questionnaire response or the company supplied as part
4 of the questionnaire response various published price
5 lists at the distributor level and the one for SKF,
6 which was on ball bearings, show the country of
7 manufacture of the ball bearings that were produced.
8 Those are all standard part numbers as they're
9 obviously listed in the catalog and sold verbally.

10 All of those products from the European
11 countries can clearly be exported to the United
12 States.

13 If you were to go through a distribution
14 center, any distribution center in the United States,
15 you would find for the Japanese, for the Europeans,
16 for the Singapore producer a wide range of their
17 product offerings sitting on the shelves whether it be
18 small, medium, large, whether it be what you might
19 call commodity-type or whether it be replacement parts
20 for items that some might refer to as custom.

21 So there is no question that on the ball
22 bearing orders or the spherical plain orders where
23 you're talking about the world's largest producers and
24 the most sophisticated producing companies other than
25 people here in the United States that that product is

1 highly interchangeable.

2 That's what all your purchasers said.
3 There's high degree of interchangeability between all
4 of the subject countries and the U.S. product. That
5 is what importers said, that's even what foreign
6 producers said in terms of their product offerings.

7 The issue in terms of rationalization, some
8 of the foreign producers and some domestic producers
9 rationalize their operation. If you're going to have
10 an automated line producing a particular item it will
11 produce so many million units over the course of a
12 year.

13 Depending on what your global demand or your
14 national demand may be for that item, you may export
15 around the world, you may import to supplement that.
16 Those items there is no question about.

17 At the OEM accounts it has always been the
18 case since these orders first started that purchasers
19 will sometimes -- not always, sometimes -- have
20 special needs and Foreign Producer A, Foreign Producer
21 B, Domestic Producer C will compete for that design to
22 solve that problem.

23 As the affidavits that were submitted by the
24 two Timken presidents, automotive and industrial,
25 stated in the custom segment of the market even after

1 you have won an order from a customer it is not
2 uncommon for the customer to put a private print on it
3 to get other bids to make sure that the price they're
4 receiving is a competitive bid.

5 So there's competition across the whole
6 sphere and there's no question that products coming
7 out of any of the European, Japanese or Singapore
8 countries would be acceptable, competitive, highly
9 competitive here in the U.S.

10 COMMISSIONER LANE: Thank you.

11 Thank you, Mr. Chairman, for letting us go
12 over.

13 CHAIRMAN KOPLAN: No problem. Thank you,
14 Commissioner.

15 Commissioner Pearson?

16 COMMISSIONER PEARSON: Thank you, Mr.
17 Chairman.

18 I also offer my greetings to this panel. I
19 suppose I should start by admitting that many years
20 ago as an end user I had experience with all three
21 types of bearings that are subject to these
22 investigations.

23 Even good U.S. made bearings because they
24 practically all were in those years eventually will
25 die, and so I have a fair amount of experience with

1 whatever tools were available and a lot of WD-40 in
2 getting old bearings off of shafts, and getting new
3 ones on and keeping things running.

4 I have a very clear sense of how completely
5 essential bearings are to the operation of a modern
6 economy, so it's a pleasure to have a chance to deal
7 with a product about which I actually know a little
8 bit.

9 Mr. Griffith, in your statement you asserted
10 that the financial pressures on the TRB business over
11 the past three years constitute a classic outcome of
12 dumping yet with an order in place as a legal matter
13 has there been dumping in TRBs? If you want to refer
14 that to Mr. Stewart that's also okay.

15 MR. GRIFFITH: No. I can address that.
16 He'll probably add to the legal view of it. The
17 direct implication on the tapered roller bearing
18 segment is that there has been dumping found from both
19 Japan and from China over the course of history.

20 That is a matter of the record of the 2000
21 sunset hearing on Japan as well as the record here, so
22 very definitely there has been dumping in this market.
23 In fact the tapered roller bearing segment has the
24 longest it is my understanding -- this is where Terry
25 will take over -- history and the largest findings of

1 dumping of virtually any commodity.

2 Terry?

3 MR. STEWART: There does continue to be of
4 course ongoing dumping in the China case, Commissioner
5 Pearson, and I believe it the companies' view that
6 when the orders on Japan were revoked that the large
7 surge in imports that came back from Japan may very
8 well have been at prices that would be considered
9 dumping under U.S. law.

10 Obviously there has not been a new case
11 brought on tapered bearings and so there is no ongoing
12 finding vis-a-vis Japan, but I believe Mr. Griffith's
13 testimony was to the effect that those two elements
14 have caused the downturn. It is not a lot different
15 than the concern about what is happening in ball
16 bearings with the nonsubject imports from China.

17 COMMISSIONER PEARSON: In regard to the
18 imports from China that are coming in under the order
19 those would be considered to be fairly traded if
20 they're paying the duty, right?

21 MR. STEWART: No. That's not correct.
22 That's never been the case. Every administrative
23 review when there's a finding if there continues to be
24 dumping the issue is whether or not a domestic
25 producer is getting relief when there's a payment of

1 duties and I'm sure my colleagues on the other side
2 would enjoy a lively debate on that topic, but in part
3 it depends on whether pricing gets corrected or not.

4 Many purchasers will buy at a dumped price.
5 They may end up paying the duty, but a domestic may
6 have been competing against that dumped price in terms
7 of the acquisition, so there can be very real price
8 consequences through continued dumping even though
9 duties are ultimately assessed.

10 COMMISSIONER PEARSON: Okay. Well, as you
11 know I'm not a student of the law, but it's been my
12 understanding that once an order was in place then we
13 would consider imports under the order to be fairly
14 traded and not to be dumped, but you're saying that's
15 not a correct understanding.

16 MR. STEWART: If you look and particularly
17 if you look at the statute on sunset reviews there was
18 a provision added that deals with duty absorption
19 exactly because one of the affects of duty absorption
20 is the prevention of the correction of pricing, but if
21 you think about pricing in the marketplace a dumping
22 finding in an administrative review typically is
23 concluded a year or two years after the import enters
24 the United States.

25 A domestic producer competing with the

1 foreign producer at the time of the sale, that time of
2 sale could be weeks or months before the importation
3 would actually occur if it was coming from China, so
4 there can be a disconnect.

5 The importer may end up paying a duty and
6 hence in the future may decide I'd rather pay somebody
7 else a higher price rather than having a liability
8 later on.

9 You can look at Commission decisions that
10 have viewed the affects of dumping being corrected
11 through the imposition of duties, but I would suggest
12 to you that from the domestic side and from the sunset
13 review statute there were deep concerns by domestic
14 producers that where there's continued dumping you
15 often are not getting the fuller affects of the relief
16 in the marketplace.

17 Clearly you get some if dumping duties go
18 down, but to the extent there's continued dumping you
19 are getting less than full relief in the marketplace.

20 COMMISSIONER PEARSON: If anyone else wants
21 to comment on that in the post-hearing by all means
22 feel free.

23 Mr. Swinehart, as noted in your testimony
24 the period of review sought declines in shipments,
25 employment, hours, wages paid, gross profit and

1 operating income. It's not clear to me that
2 represents tremendous success for the domestic
3 industry.

4 Will it really make any difference one way
5 or another whether these orders are continued or
6 revoked because if that's the success that's been
7 occurring under the order then is it really success?

8 MR. SWINEHART: Bob Swinehart. Clearly the
9 financials that I was referencing which came out of
10 the report are pretty ugly. I think an earlier
11 question was also asking about some of the financial
12 results and there's been a lot of pressure from
13 customers using e-bidding on product, and so we've had
14 price pressures that have come at ever increasing
15 rates the last several years.

16 At the same time we've had tremendous
17 inflation in benefit costs, medical costs in
18 particular, for our employees. Of course there's been
19 a lot of inflation in steel material costs the last
20 several years and I think the industry as a whole just
21 simply has not been able to get out ahead of these
22 costs.

23 You may put a price increase in and think
24 that's going to take care of your steel problem and
25 then you're hit with the medical cost problem, so

1 those rates of inflation versus what we're able to
2 recover in pricing from very sophisticated customers
3 plus obviously the impact of both the imports from
4 subject countries and the ones from countries that are
5 not subject to dumping duties.

6 In the case of ball bearings particularly
7 the Chinese. So it's just been a bad formula. I
8 still think that we're better off with not allowing
9 these orders to sunset and I think the industry will
10 right itself.

11 COMMISSIONER PEARSON: Well, how would you
12 respond then to the argument that these orders at most
13 are having the affect of slowing industry responses to
14 rather strong underlying trends? The trends are
15 there, the orders are maybe having some affect, but is
16 it a big affect or a moderate affect?

17 MR. STEWART: If I could jump in on that,
18 Commissioner? This is Terry Stewart. If you look at
19 the significant reduction in exports from the six
20 countries that come to the United States over the
21 period on one of the slides that Mr. Timken had in his
22 presentation you would have seen that total ball
23 bearing exports by the six countries increased more
24 than one billion dollars between 2000 and 2005.

25 The volume that came to the U.S. either

1 decreased or was roughly comparable and as a share of
2 total exports there has been a significant diminution
3 in the share from those six countries that comes to
4 the United States.

5 So very clearly the dumping orders are
6 having the affect of restraining the volume because as
7 the 337 excerpt that is included in Mr. Timken's
8 statement and that was in our prehearing brief showed
9 foreign producers covered by the orders evaluate their
10 prices, move their prices up here in the U.S. to try
11 to minimize dumping liability.

12 That's a rational business behavior for them
13 to do. That also means that they forego large parts
14 of business that they might otherwise pursue from
15 their offshore operations. That is also reasonable
16 business. Those are the typical consequences that one
17 finds with an order.

18 You see all of those things here. Under the
19 statute the issue is is this industry vulnerable? It
20 can be vulnerable because of nonsubject imports or
21 other challenges it is facing --

22 COMMISSIONER PEARSON: Right, but in a very
23 globalized industry like this with sophisticated
24 manufacturers manufacturing in multiple countries when
25 you block or restrict imports from one country under

1 the period of review aren't we seeing just shifts in
2 origins of imports and still product coming in? My
3 red light is on, so I think I probably better go back
4 to that question next time around.

5 Thank you.

6 CHAIRMAN KOPLAN: Thank you, Commissioner.

7 Commissioner Aranoff?

8 COMMISSIONER ARANOFF: Thank you, Mr.

9 Chairman.

10 I want to join my colleagues in welcoming
11 the morning panel here today.

12 Unlike I guess most of my colleagues I come
13 to this case with a completely fresh perspective,
14 although I have spent quite a bit of time already and
15 expect to spend much more catching up on the long
16 history here, so you'll pardon me if I ask some of the
17 kind of questions you probably got all the way back in
18 the original investigation as I try to catch up and
19 learn more about your market.

20 Let me start with this. In the first review
21 with respect to ball bearings the Commission relied
22 pretty heavily on the fact that the ball bearing
23 industry was fragmented which it viewed as heightening
24 the potential volume and price affects of revocation
25 when producers who were U.S. producers affiliated with

1 subject producers might import to compliment their
2 product lines.

3 It said that the collective affect because
4 of the fragmentation of the industry might be
5 magnified. Do you think that the underlying
6 conditions that led the Commission to that conclusion
7 about the fragmentation of the industry are about the
8 same now, less true, more true than they were five
9 years ago?

10 MR. STEWART: This is Terry Stewart,
11 Commissioner. There have obviously been several
12 consolidations. The Timken acquisition of Torrington
13 was one, the merger between INA and FAG would be a
14 second.

15 At the same time, in terms of the market,
16 including the markets that are subject to the orders,
17 you find that there are lots of producers who are not
18 part of the multi-national chains and in fact in our
19 prehearing brief we identified the rate of coverage of
20 exports by the companies who have submitted
21 questionnaire responses and generally what you find is
22 that the rate of coverage is quite small.

23 That is because in countries like Japan
24 there are many other ball bearing producers than the
25 major ones who show up at hearings like this or supply

1 questionnaire responses and apparently they must
2 account for a significant part of overall Japanese
3 exports because the public data suggests that there's
4 a small coverage.

5 So I would say that it remains, probably
6 the, most fragmented of the bearing markets in the
7 United States. There continue to be several dozen U.S.
8 producers or U.S. operations here and that price
9 continues to be a major driver and as the statement of
10 SKF's then U.S. operator in the first review it
11 remains the most commoditized of the product lines.

12 COMMISSIONER ARANOFF: Thank you for that
13 answer. Here's where I go back to questions that
14 probably came up way at the beginning of this case.

15 I'm trying to understand a little bit more
16 what is meant by custom and standard bearings and in
17 particular -- well, first I want to understand if
18 there's a commonly accepted definition of these terms
19 in the industry, but I'm also trying to understand
20 sort of what the level of competition is when you're
21 talking about the sale of a custom product.

22 If you have two producers who make custom
23 bearings for the same market segment does that mean
24 that they're competing or are there other factors?

25 MR. SWINEHART: Bob Swinehart. Let me try

1 that one. I think within the industry custom or
2 special is going to be a little bit gray. You can
3 take a standard bearing and put a different grease in
4 it and just because you put a special grease that
5 particular customer wanted you likely would put a
6 different part number on that.

7 The way the wording in the questionnaire was
8 that asked for the snapshot in 2005 that would get
9 classified as a custom bearing. You could drill a
10 hole in an outer race or you could do some
11 modification and it would be my opinion that a lot of
12 what is classified as custom is probably a fairly
13 standard bearing that has been modified in some way.

14 Now, there are bearings that are highly,
15 highly custom. I think of the bearings that are used
16 on the out drive of a power boat. It's a very unique
17 gimbaled kind of bearing. We make some housed
18 bearings that we sell into the paver industry that
19 have a real weird looking casting, and so those are
20 going to be truly custom and very special.

21 I think a lot of what is custom is really a
22 modification of the standard. From the viewpoint of a
23 manufacturer if you're using your equipment, and labor
24 and your fixed costs whether you're making a custom
25 bearing or a standard bearing it adds to your volumes

1 and it helps your profitability, so I really don't
2 think that it's important to try to separate the
3 volumes of custom from the volumes of standard.

4 Now, another thing that goes on where people
5 attempt to create a custom if a customer can use their
6 part number instead of an industry standard part
7 number then they are more likely to control the after
8 market, so they'll get people who buy their machinery,
9 or equipment, or what have you to come back to them to
10 buy that replacement bearing when it needs to be
11 replaced rather than going to a bearing distributor
12 and buying a standard off the shelf bearing at
13 probably a lower price.

14 So customers are going to have a natural
15 propensity to try to make a standard into a custom or
16 to go for a custom and generally if they have enough
17 volume they can push that issue and it works to their
18 advantage.

19 COMMISSIONER ARANOFF: That's helpful.

20 Mr. Timken, would you like to add something?

21 MR. TIMKEN: Yes. This is Tim Timken. If I
22 could add, Commissioner, I think I agree with Bob 100
23 percent. I don't think there is an industry accepted
24 definition of what is a custom versus a standard. In
25 fact I was a bit surprised by the one that we used for

1 this hearing because it had aspects that I would have
2 never considered.

3 At the end of the day, though, there is no
4 significant difference in the level of competition
5 between custom and standard no matter how you define
6 it. The fact of the matter is we compete with global
7 companies who have a lot of the same capabilities that
8 we do regardless of what country they're in.

9 So if it's wheel end bearing versus a single
10 row simple bearing that Jim Griffith showed you
11 earlier there isn't a significant level of difference.

12 Generally what we'll experience when we do
13 go after something that's a little bit more unique
14 typically we'll work with a customer, we'll provide to
15 designs to them, they'll take those designs, put it on
16 their own piece of paper and take them out to the
17 competition and say, okay, who else can make this?

18 I think this afternoon you'll hear that boy,
19 once you've got that on paper we can't compete there.
20 It's not reality. It happens everyday with a lot of
21 our OEM customers.

22 COMMISSIONER ARANOFF: Well, following up on
23 that let me just ask you when you're asked by a
24 customer to make a custom product which maybe we're
25 talking about just drilling another hole, or changing

1 the grease, or maybe we're talking about something
2 that actually requires a new design, or a different
3 tooling, or something else that's more costly or
4 involved, needs more thought put into it who as
5 between you and the customer owns the design or any
6 tooling that's needed to produce a custom product?

7 MR. TIMKEN: That would depend on the
8 individual customer industry you're working with.
9 Typically the intellectual property would stay with
10 us, although there are certain industries that demand
11 ownership of the intellectual property. In certain
12 cases a lot of aerospace applications would involve
13 the jet makers owning the IP. In most cases we would
14 own the intellectual property, though.

15 COMMISSIONER ARANOFF: If you own the IP
16 does that make it harder for the customer to go and do
17 what you just described, go out and say well, we just
18 gave this contract to Timken, but can anybody else
19 make it cheaper?

20 MR. TIMKEN: Reverse engineering happens
21 every day and there are ways to get around
22 intellectual property that our competitors know how to
23 do very well.

24 MR. GRIFFITH: Commissioner Aranoff, if I
25 could add a little bit. The bearing industry -- and

1 this is a little bit to Mr. Swinehart's comment -- is
2 not typified by large amounts of legally protectable
3 intellectual property.

4 It's rare that one of those custom bearings
5 is patentable and therefore protectable from that
6 point of view, and so what will happen is the
7 difference between a custom application and a standard
8 application is usually one generation.

9 Most customers understand that in order for
10 you to design one you have to have some return, so
11 they'll give you the first application, but the next
12 time out -- everybody in the industry has looked at it
13 and there's a number of examples on the table where we
14 develop a custom application and within one cycle of
15 the application it's readily available in the market
16 and that by our definition creates a standard.

17 The only real exceptions to that are very
18 niche applications, small volume, where just
19 economically it's not viable for multiple people to do
20 it, for example Bob's example of a paver application,
21 but that's a niche and it's not significant in terms
22 of the overall economics of the business.

23 COMMISSIONER ARANOFF: Thanks, all. My time
24 is up, but I will come back to this on the next round.
25 Thank you.

1 CHAIRMAN KOPLAN: Thank you, Commissioner.

2 Thank you, all, for your answers thus far.

3 Mr. Stewart, I'll begin with a question of
4 you. I'm going to start talking about the tapered
5 side of it. In Mr. Griffith's direct testimony on
6 page 2 he referred to the automotive sector and he
7 made the statement the key customers are in
8 substantial difficulty including such large producers
9 as General Motors, Ford Motor Company and the Dana
10 Corporation.

11 He said this is a condition of competition
12 that was not present during the first review. For the
13 post-hearing I'd like you to comment on the first full
14 paragraph at page 25 of Chinese Respondents' brief.
15 Most of that is redacted which is why I make that
16 request of you rather than of Mr. Griffith.

17 To assist you I will say that I'm referring
18 to a paragraph that begins, "For the reasons discussed
19 above" and ends, "therefore farfetched to begin with."
20 That's the paragraph I'm referring you to, and if
21 you'd do that for me I'd appreciate it.

22 MR. STEWART: Pleased to do so.

23 CHAIRMAN KOPLAN: Thank you.

24 Now, Mr. Griffith, I'll turn to you. The
25 Respondents' brief states at page 15 -- this is the

1 Chinese Respondents' brief -- "If after revocation
2 subject imports from China were to increase the
3 competition would overwhelmingly be with third country
4 imports not U.S. production, although because of the
5 growth of demand in China and the high capacity
6 utilization of Chinese producers there is a very low
7 probability of a significant increase in subject
8 imports under any circumstances."

9 In addition page 17 of your 10-K report for
10 the fiscal year ended December 31, 2005, states, "The
11 Timken Company reported record net sales for 2005 of
12 approximately \$5.2 billion compared to \$4.5 billion in
13 2004, an increase of 14 and a half percent. Sales
14 were higher across all three business segments."

15 The report also states on page 17, "The
16 company expects continued strong financial performance
17 in 2006." Now, this performance was achieved despite
18 record levels of TRB imports from all sources. How do
19 you respond to their argument on the other side that
20 any increase in U.S. imports of TRBs if revocation
21 occurs would likely displace nonsubject imports of
22 TRBs rather than domestic production?

23 MR. GRIFFITH: This is Jim Griffith.
24 Chairman Koplman, there is a fiction being put forth by
25 the Chinese bearing industry that it is small,

1 fractured and incapable and therefore not able to
2 compete in this market.

3 Producers in the Chinese industry include
4 companies like SKF, FAG, NSK, Koyo and to give you an
5 example both FAG and SKF have had bearings that are
6 approved by the American Association of Railroads
7 which doesn't regulate the Chinese rail market, it
8 only regulates the U.S. rail market.

9 What reason would they have gone through the
10 process of having them approved if they were not
11 thinking of bringing them in to the U.S. market? That
12 is a very real example. Secondly the history of China
13 in the bearing industry is very much as I described in
14 the response to Commissioner Lane of making low
15 performing, low-priced bearings.

16 If you travel in China today you get off at
17 the airport at Shanghai, you'd probably be picked up
18 by a Buick Regal made in China, or a Toyota, or a
19 Honda, or a Volkswagen all made to western standards,
20 many of them with components having been localized,
21 and so that capability now exists in China.

22 So if you look in the rearview mirror that's
23 where their argument is they're trying to build. If
24 you look forward it is poised just like Japan was in
25 1980 waiting for the customer who is willing to take

1 the risk and bring that in.

2 I have personally walked through bearing
3 factories in China that are owned by Chinese bearing
4 manufacturing companies that have the latest
5 technology, technology better than we have in many of
6 our manufacturing plants.

7 CHAIRMAN KOPLAN: Thank you.

8 Mr. Stewart?

9 MR. STEWART: Yes. Just to round out the
10 answer, Commissioner Koplan, the annual report of
11 course is of a company that has operations around the
12 world, and so statements that are taken from an annual
13 report while understandable that the other side likes
14 to focus on them doesn't really relate to the U.S.
15 operations of the three product lines that are the
16 subject of the reviews.

17 The company has supplied a very detailed
18 questionnaire response that identifies the operating
19 performance and while counsel for the Chinese might
20 like to refer to the annual report of the company the
21 actual performance of the U.S. operations are in the
22 staff report and in the questionnaire response and
23 they speak for themselves and were identified in Mr.
24 Griffith's statement.

25 CHAIRMAN KOPLAN: Thank you, Mr. Stewart.

1 Actually, I was about to move overseas with
2 my next question, so let me come back to Mr. Griffith.
3 Their brief claims at page 15 and it's the same page
4 as well, "virtually all major TRB manufacturers have
5 opened plants in China."

6 On the same page they state, "Timken's 2005
7 annual report details the growth of China's market,
8 the expansion of Timken's Chinese operations and the
9 age eccentric focus of its Chinese operations" and
10 they go on. Reportedly that consists of four plants
11 and 13 percent of your workforce.

12 In addition on page 17 of your 10-K for the
13 fiscal year ended December 31, 2005, it states, "the
14 industrial group has also benefitted from growth in
15 emerging markets especially China. The industrial
16 group's profitability in 2005 increased from 2004
17 reflecting volume growth and price increases partially
18 offset by investments in project one and Asia growth
19 initiatives."

20 Since Asian growth opportunities have
21 attracted Timken and other major TRB producers into
22 the region should we expect that an increasing share
23 of Chinese production will be consumed domestically or
24 exported elsewhere in Asia?

25 I ask this because Respondents cite to your

1 2005 annual report at page 18 where you reported that
2 your sales to Chinese customers were nearly 30 percent
3 in 2005 as you continue to support the ongoing
4 infrastructure and economic growth there.

5 MR. GRIFFITH: Chairman Koplan, if I could
6 I'll remind you of my direct testimony that showed
7 that in fact the Chinese bearing industry increased
8 its exports every year over the past five years
9 despite that rapid growth. That says to me that
10 capability exists.

11 They disproportionately shipped it to
12 markets other than the United States which is a direct
13 reflection of the impact of the anti-dumping duty
14 order. Now, as it relates to Timken's investments in
15 China we have a very strong presence in the United
16 States.

17 As we look for growth opportunities we look
18 disproportionately outside the United States to
19 markets where we are not as well -- where we don't
20 have the history. China is the fastest growing market
21 in the world. We have something less than two percent
22 market share and therefore it's prudent business for
23 us to invest there, to grow and to be an active part
24 of that market as we have been in Europe for 80 years.

25 CHAIRMAN KOPLAN: Thank you.

1 Mr. Stewart, the Respondent brief states at
2 page 11, "We submit that the available data show that
3 U.S. made TRBs are not the same types of bearings as
4 subject imports and are not sold to the same types of
5 customers for the same applications." Now, they base
6 this contention on confidential questionnaire
7 responses from Timken's questionnaire and confidential
8 pricing data.

9 I note that in answer to a question by
10 Commissioner Lane regarding value and volume
11 differentials between subject imports and domestic
12 products I think Mr. Griffith explained that the
13 tapered roller bearings he showed her, one subject and
14 one domestic, appeared identical but that the domestic
15 product lasted about five times longer and would be
16 used in higher load applications.

17 Would this imply that the two are in fact
18 not the same and don't necessarily compete head-to-
19 head? This is an argument that Chinese Respondents
20 are making.

21 MR. STEWART: This is an argument that the
22 Chinese have made for many years, and I think that the
23 answer has to be put in the context of what Mr.
24 Griffith testified to. Yes, you have some product
25 that comes in capable of lower load ratings and there

1 are a large number of applications where that means
2 they're directly competitive because the load needs of
3 that application are less.

4 It may also mean that if you have a producer
5 who hasn't upgraded their capabilities that they would
6 not qualify for certain applications. That is also a
7 possibility.

8 What Mr. Griffith testified to, however, was
9 that over the last three years, with the enormous
10 amount of foreign investment and the upgrading of the
11 auto industry in China in a very rapid rate; you have
12 dramatically improved raw materials, you have world-
13 class machine tool production at the moment, and you
14 have highly skilled employees in terms of producing
15 high quality bearings. All of which means that the
16 Chinese producers who are subject to the order are
17 rapidly moving up the scale.

18 We could go back to 1986 when the case was
19 brought on China and make comparisons and there has
20 been dramatic improvements and there are much more
21 dramatic improvements in the last three, four years.
22 Our testimony has been that all segments of the U.S.
23 tapered market either have been or will be challenged
24 by Chinese producers in the near future.

25 CHAIRMAN KOPLAN: Thank you, both, for your

1 answers to my questions thus far.

2 I'll turn to Commissioner Hillman.

3 COMMISSIONER HILLMAN: Thank you.

4 Mr. Conway, if I could perhaps start with
5 you. You mentioned in your testimony this issue of a
6 change in the regulations with respect to DOD
7 purchases under the Buy America provision. I wondered
8 if you could help me put that in a little bit of a
9 perspective.

10 If you have a sense from your perspective
11 what portion of bearings would be sold subject to Buy
12 America provision. I take it this change is
13 relatively recent, so I'm curious whether in fact any
14 waivers have yet taken place where the Buy America
15 provisions have been waived, and if you can help me
16 understand what brought about the change.

17 I mean, what pushed for this change in the
18 DOD regs?

19 MR. STEWART: Perhaps I can help Mr. Conway
20 on it as it's largely a legal issue. The regulation
21 is very recent. The change in regulation, I think it
22 came out earlier this month, so your question with
23 regard to are we aware of any waivers? No. We're not
24 aware of any waivers as yet simply because it is so
25 new.

1 In terms of the share Buy America your staff
2 did ask for that information and so you have the
3 actual data in your questionnaire response. I'm not
4 sure how much of that is in the public domain that Mr.
5 Conway would be familiar with.

6 COMMISSIONER HILLMAN: Then the issue of the
7 genesis of this change. What prompted it?

8 MR. STEWART: Over the years I know that
9 domestic bearing companies who have worked with the
10 Department of Defense have been concerned that the
11 DFAR regulations that were in effect were not actually
12 being implemented on a regular basis and so that there
13 were many sales that domestics would have felt should
14 have been subject to DFAR regulations that were not
15 being so treated.

16 Our understanding is that there was a fair
17 amount of concern among subcontractors about the
18 paperwork and so that you've had push back both from
19 the Defense Department and from their subcontractors
20 as to their willingness to pursue that. That's my
21 understanding of the genesis.

22 COMMISSIONER HILLMAN: If I can then turn to
23 the issue of pricing to try to get a little bit of a
24 better understanding in terms of how the price
25 competition really occurs in the market and how we

1 should read that from our data.

2 Obviously this is complicated from our
3 perspective in the sense that you have transaction by
4 transaction negotiations, you have contracts, you have
5 price lists.

6 Let me start with the issue of price lists
7 if I could to help me understand if you have a sense
8 of it of what portion of products are actually sold
9 for the prices in the price list or to what degree are
10 negotiations in essence for some sort of discount off
11 of the price list?

12 I don't have a good feeling for thinking
13 about this industry of how specific are the price
14 lists to what actually is happening in the market.

15 Mr. Swinehart?

16 MR. SWINEHART: Bob Swinehart. I can't give
17 you specific percentages, and I'm not even sure if we
18 can research that and come up with specific
19 percentages in a brief afterwards, but let me describe
20 the channels of sale, and maybe we can get to some
21 sense of the magnitude.

22 I would say that when you're selling to an
23 OEM, you typically would quote, and there would be
24 negotiations, and so price lists are really out the
25 door. So to the extent that you have OEM sales, and I

1 think there is data on that, you can figure that those
2 are probably negotiated.

3 COMMISSIONER HILLMAN: None of them and
4 without reference to the price list. That's not a
5 starting point for negotiations.

6 MR. SWINEHART: No. I'm not going to say
7 never, but if it's a large enough volume that you're
8 dealing with an OEM, they are probably going to put
9 enough pressure on, whether it be a negotiating
10 process or whether it be an electronic bidding
11 process, that you're not going to start even at your
12 price list level.

13 Then there is the aftermarket segment, and
14 we really should talk about -- I'll call it the
15 "channel to the market" because distributors typically
16 handle aftermarket. However, if an OEM is relatively
17 small, they will also buy from a distributor rather
18 than direct from a manufacturer. So some portion of
19 what goes through the distributor channel is going to
20 be OEM, and probably the larger part of it is
21 aftermarket, which we like to refer to as sort of the
22 read and replace. Someone goes in, and they've got a
23 part number, and they say, "Give me one just like
24 this," or they will go to a table and interchange it,
25 which you can do with bearings because of the

1 standardization. So your sale to the distributor is
2 probably off of a price list.

3 COMMISSIONER HILLMAN: Negotiated off of
4 that or paid at the list price?

5 MR. SWINEHART: Well, it may be a listed and
6 discount price but a list price. There will be price
7 increases periodically. I wouldn't go as far as to
8 say that it's annually but periodically. When there
9 was rapid steel inflation a couple of years ago, I
10 think the industry may have had two price increases,
11 at least the mounted portion of it did. But there
12 will be periodic price increases on those list prices.

13 Now, a lot of manufacturers will also have
14 rebate programs for a distributor. If he buys product
15 and puts it on his shelf, and he sells that to an OEM
16 versus an aftermarket, he documents that, and he can
17 get an adjustment because he sold it to an OEM rather
18 than come back to you and negotiated a price that you
19 had him service that OEM with.

20 COMMISSIONER HILLMAN: Okay.

21 MR. SWINEHART: Now, the part I haven't
22 answered for you is the percentage. I think that it
23 would be a fairly substantial number, but I just
24 wouldn't even guess.

25 COMMISSIONER HILLMAN: Mr. Griffith, let me

1 let you jump in on this as well. Obviously, what I'm
2 trying to understand, to the extent that you're
3 talking about the imports having either -- Mr.
4 Griffith you talked about the sort of depressing
5 effect of the Chinese product, and yet I'm looking at
6 our data and seeing more or less prices either stable
7 or up, and I'm trying to understand whether it's only
8 for these list price sales to the Chinese, but if
9 you're only adjusting your list prices once or twice a
10 year, again, a little unclear to me where exactly and
11 how I see this price competition from imports on
12 either end.

13 Everybody has mentioned the price
14 competition. I'm just trying to see where on this
15 record we should be seeing it. Mr. Stewart, in the
16 brief, has clearly said, Here is X price list, and
17 here is Y price list. Do this correct comparison, and
18 you'll see this competition, and yet I'm trying to
19 make sure I understand how real a comparison that is
20 and should be.

21 Mr. Griffith, let me let you start in on
22 this, and then, Mr. Swinehart, if you have other
23 things to add, please do.

24 MR. GRIFFITH: I think our business is a
25 little cleaner than Bob's is in terms of answering

1 your question. He is exactly right, that the
2 distribution is the only piece that sells effectively
3 at a list or a structured price. Virtually 100
4 percent of the OEM market is negotiated in some way,
5 shape, or form.

6 Our bearings-oriented businesses are about
7 half automotive and half industrial. The automotive
8 is effectively 100 percent negotiated. Just a
9 reference to the performance of the company: That
10 business lost \$20 million last year, so half of our
11 business lost \$20 million on the bearings side last
12 year. On the industrial side of the business, it's
13 about half through distribution and half direct to an
14 OEM. So overall within our business, about 75 percent
15 of the market is negotiated.

16 Now, how do we see price competition. We
17 see it in two places. One is when you go to an OEM,
18 and they throw out and say, We've got this in from
19 China, and he'll sell us this, or India or whatever
20 the case may be.

21 The second place we see it, and the place we
22 see direct competition, if you went, as Commissioner
23 Pearson said, to a local bearing distributor and said,
24 "I want to buy a replacement part for this," and they
25 pulled a Timken out, you looked at it, and you said,

1 "It's too expensive," they would reach into another
2 thing, and they would pull out what they call a "value
3 line," and that is a nonbrand-specific interchange for
4 that that might sell at 50 percent lower price in that
5 particular market, and that's a heads-on competition,
6 and it is a growing competition, very direct in the
7 automotive aftermarket, also in the agricultural
8 aftermarket, again, because those are markets which
9 are more price sensitive in the marketplace and where,
10 in many cases, there is a direct performance
11 comparison between the products.

12 COMMISSIONER HILLMAN: I very much
13 appreciate those answers. I know you had something
14 else to add, Mr. Swinehart. I'll come back to that in
15 the next round. Thank you.

16 CHAIRMAN KOPLAN: Well, if you want to close
17 the loop on that, go ahead.

18 COMMISSIONER HILLMAN: If there was a
19 comment, while it's fresh in your mind and consistent
20 with the transcript being all in one place, if there
21 was something else you wanted to add, Mr. Swinehart.

22 MR. SWINEHART: Your follow-on question
23 about the competition, and, clearly -- he answered it
24 really -- the OEM level is going to be very direct,
25 very rifle shot, and both subject and nonsubject

1 producers are going to be at those high volumes and
2 sitting at the table trying to get that business
3 exactly as they described it in the aftermarket. I
4 was going to say that, but he really has covered it.

5 COMMISSIONER HILLMAN: Thank you very much.
6 Thank you, Mr. Chairman.

7 CHAIRMAN KOPLAN: Sure. Commissioner Lane?

8 COMMISSIONER LANE: Mr. Stewart, I'll start
9 with you, I think. In assessing whether certain
10 bearings will be diverted from other countries to the
11 United States, price levels for certain bearings in
12 other countries may be relevant. What can you tell me
13 today regarding comparisons of price levels in the
14 United States as compared to price levels in other
15 countries, and do you have any data or industry
16 articles that offer comparisons of the general price
17 levels of certain bearings in the United States as
18 compared to other countries or geographic markets?
19 And before you answer, I'm going to test your memory
20 and see if you can remember all of what I'm asking
21 you.

22 The staff report indicates where all of the
23 export markets are for the three products that we
24 have, and I would like to know if we can get some
25 specific information as to the price levels in those

1 countries where these three products are being
2 exported to by the subject countries. All that in 10
3 minutes or less.

4 MR. STEWART: Thank you very much for the
5 question, Commissioner Lane. Let me start with what
6 is on the record that I'm familiar with.

7 COMMISSIONER LANE: Could you speak up a
8 little bit?

9 MR. STEWART: Yes. I'm sorry. Let me start
10 with what I'm familiar is on the record that could be
11 of assistance to you.

12 First, in the staff report, in the public
13 version, we pulled out in our prehearing brief those
14 statements which indicated from purchasers that prices
15 in the U.S. were higher than they were elsewhere. In
16 our prehearing brief, we submitted a series of
17 affidavits in the distribution area pertaining to
18 whether prices outside the United States were higher
19 or lower, all of which indicate that prices in the
20 U.S. distribution are higher. You have to realize
21 that in 2006 major distributors operate not only in
22 the United States but in Canada and sometimes operate
23 in Mexico.

24 You've also had testimony from Mr. Swinehart
25 today that their experience is that the prices here

1 are higher than they are in Canada and Mexico, and
2 Timken submitted an enormous amount of information in
3 their questionnaire response looking at prices in
4 Canada, in Mexico, in the European Union, and in Japan
5 at the distribution level. Again, that would be
6 information that would be available. In response to
7 Commissioner Hillman's question, that included
8 information as to discounts that were common, at least
9 to the Timken Company's experience.

10 So with regard to what information can we
11 point to, we have tried to point to a great deal of
12 information. We were surprised that our friends on
13 the other side chose to characterize the request from
14 the Commission and the questionnaire for that type of
15 information as being meaningless as they sell the same
16 part numbers in every country of the world, and so a
17 little surprising that SKF or the other European
18 producers couldn't tell you what their prices for
19 these items are in Europe, that the Japanese couldn't
20 tell you what their prices are in Japan, or that the
21 Singaporeans couldn't tell you what their prices are
22 in Singapore since presumably they all sell in those
23 markets.

24 So we did try to supply as much information
25 in that regard as we could. We will go back in terms

1 of the countries to which they export to see if we can
2 provide any supplemental information, but I do believe
3 that what we have supplied is quite comprehensive and
4 is an effort to address much of what you've asked for.

5 COMMISSIONER LANE: Does anybody else want
6 to add to that?

7 MR. SWINEHART: Yes. Bob Swinehart.

8 COMMISSIONER LANE: Yes, Mr. Swinehart.

9 MR. SWINEHART: I'm looking at our
10 submission. We also included some price information
11 in our questionnaire, and I can see that the
12 countries, Spain, Germany, Italy, U.K., Argentina,
13 Canada, and the U.S. That would be in our
14 questionnaire.

15 I think the other question that you had was
16 regarding the ability to change their production so
17 that they can divert product to the U.S. instead of to
18 the other export markets.

19 COMMISSIONER LANE: Yes.

20 MR. SWINEHART: My background is basically
21 manufacturing. I came up through the manufacturing
22 side of the business, and I think that it would be
23 very easy and straightforward to do that.

24 COMMISSIONER LANE: Okay. Thank you.

25 Mr. Stewart, I'll stick with you. I would

1 like you to give me your views regarding cumulation.
2 How do you respond to the arguments made by the U.K.
3 and Singapore Respondents that the Commission should
4 not cumulate subject imports from these two subject
5 countries. How should we evaluate the likelihood of
6 discernable adverse impact from individual subject
7 countries?

8 MR. STEWART: Again, thank you very much for
9 the question, Commissioner Lane. Obviously, we
10 believe you should cumulate all six countries. The
11 main statutory criteria with regard to cumulation,
12 namely, whether the products compete with each other
13 and with domestic products, are clearly met here. The
14 company that you are looking at in the case of
15 Singapore that dominates the Singaporean market is a
16 major, multinational company with operations here, in
17 Japan, in Thailand, and in other countries.

18 If you take a look at the history of trade
19 from Pelmec to the United States, what they have done
20 is, in the original case, both Thailand and Singapore
21 were subject to the orders. If you look at global
22 exports, it is Singapore, not Thailand, that is the
23 major global exporter for them, as exports from
24 Singapore are about a half billion dollars, and as far
25 as we know, they are the major, if not only, exporter

1 from Singapore. And if you look at the movement of
2 product, they move product from Singapore to Thailand
3 or from Thailand to Singapore to the States, depending
4 on which country was covered by an order.

5 So, originally, there were higher margins on
6 Thailand, as I recall, and so imports from Singapore
7 were the larger volume. When Thailand got revoked,
8 the volume from Singapore has dropped off, and the
9 product has come in from Thailand. But the answer is,
10 with the half-billion dollars that they sell, and a
11 significant market that perhaps they are not tapping
12 here, there can be very little doubt that if you take
13 the order off on Singapore, there will be a
14 discernable adverse effect within the meaning of the
15 statute.

16 The same thing, I would say, is true for the
17 United Kingdom. In our prehearing brief, we identify
18 some additional investments in ball bearing capacity
19 that are being made by one or more of the U.K.
20 producers. The U.K. producers are part of big,
21 multinational groups, and you can find their product
22 in every distribution channel in the United States, so
23 it's not a question of them needing to come back in;
24 it is a question, again, of are there pieces of the
25 market that they have been kept out of because of the

1 pressure of the dumping order, namely, they don't want
2 to pay the dumping duties to compete at the OEM part
3 of the business.

4 The U.K. is also one of the 10 largest
5 exporting nations, and a small portion is coming to
6 the U.S., but the companies who are there are
7 companies who have demonstrated a great capacity to
8 expand exports. I believe SKF has got a U.K.
9 operation.

10 If you look back at the last time we did a
11 sunset review, the testimony of SKF at the hearing at
12 the time was that Sweden had either ceased or largely
13 ceased producing ball bearings. It may have been true
14 at the time.

15 If you take a look at their price lists that
16 they have in the European Union today, you'll find
17 that there are hundreds of ball bearing part numbers
18 from Sweden that are routinely offered to every market
19 that they sell in.

20 So we believe, in both cases, the volume of
21 export trade, the export dependency, the
22 interchangeability of the product, they being part of
23 multinational organizations means that if you remove
24 the order, there will likely be an increase, and that
25 increase will be greater than no discernable effect.

1 COMMISSIONER LANE: Mr. Chairman, I will
2 wait until my next round. Thank you, Mr. Stewart.

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

5 COMMISSIONER PEARSON: Going back to where I
6 was in the previous found, I had asked Mr. Swinehart
7 basically the question of how would you respond to the
8 argument that these orders, at most, are having the
9 effect of slowing industry responses to what seem to
10 be rather strong underlying trends in the marketplace.

11 Could I hear some thoughts from the industry
12 witnesses on that? It looks to me like your industry
13 is becoming increasingly globalized, and what's not
14 obvious to me is whether these orders are able to
15 somehow reverse or ameliorate those trends. Mr.
16 Griffith.

17 MR. GRIFFITH: Commissioner Pearson, thank
18 you. First, let me be very clear. We can be
19 competitive with the world from a U.S. manufacturing
20 base. We are committed to it. We are driving our
21 business forward on that basis. Our U.S. operations
22 have improved their labor productivity almost 10
23 percent a year each of the last five years to position
24 ourselves in this market to be able to compete. So it
25 is not slowing any response to what's going on in that

1 market.

2 We can be competitive -- that means we can
3 be successful -- if we're subject to fair market
4 situations, which is why we spend so much time here,
5 to assure that that happens. To give you a sense of
6 my view of the fairness of the U.S. market versus the
7 fairness of the markets in which our major competitors
8 reside, I have a very simple statistic.

9 In Japan, 90 percent of the bearings sold
10 are manufactured by Japanese-domiciled manufacturers,
11 90 percent. In fact, there is not a foreign member of
12 the Japanese Bearing Industry Association.

13 In E.U., 80 percent of the bearings sold are
14 sold by E.U.-domiciled bearing companies. In fact,
15 Timken is the only non-E.U.-based member of FEBMA, the
16 Federation of European Bearing Manufacturers
17 Association.

18 In the U.S., only approximately 70 percent
19 of the bearings sold are sold by U.S.-domiciled
20 bearing companies.

21 So you see just a dramatic difference in the
22 field of competition between the countries, and that's
23 why orders like these are so critical to allowing us
24 to maintain the competitive plans.

25 Now, I'll also tell you that, on a global

1 basis in the last six years, Timken has closed 20
2 plants that we deemed to be nonglobally competitive.
3 They are disproportionately in the United States and
4 western Europe, but they are all over the world, and
5 we have closed them specifically because we believe
6 that it is our responsibility to provide competitive
7 sources of supply, and if we can't do that, that's our
8 problem. We simply request that we be allowed a fair
9 chance to compete with that competitive base.

10 COMMISSIONER PEARSON: Thank you for that
11 comment. Could you elaborate a little further why
12 Japan and Europe have lower rates of sales by
13 companies that aren't domiciled there? Do they have
14 tariff structures or antidumping measures or other
15 policies that would encourage that?

16 MR. GRIFFITH: I am far from an expert on
17 that area. It is a little bit where I comment on the
18 classic response to dumping. The foreign companies
19 have been very aggressive in the United States at
20 acquiring American bearing companies at the bottom of
21 the economic cycle without arguing what caused them to
22 be at the bottom of the economic cycle, and that gives
23 all of them significant positions here. It is quite
24 difficult to acquire a position in the Japanese
25 bearing market as a foreigner. The E.U. -- I'll let

1 you ask the E.U. people. I really don't understand
2 the structure of the market.

3 But, again, to the question that was asked
4 me about why are we growing so aggressively in China,
5 it's because we have the opportunity to get into that
6 market now, and we want to assure that 30 years from
7 now we're not sitting having the same discussion that
8 we're having about the Japanese market.

9 COMMISSIONER PEARSON: A point well taken.

10 Any other comments on this issue by industry
11 representatives? Mr. Sperrazza?

12 MR. SPERRAZZA: I think I can shed a little
13 bit of light on that, Commissioner. I served as a
14 purchasing contracting officer for the United States
15 Army Security Agency during my four years in the
16 military and wound up living in Japan on a military
17 base there for three years. During that stay, I came
18 into contact with many, many businesspeople because I
19 was doing the purchasing contracting as well as
20 personal friends, and the way that the Japanese are
21 raised and the philosophy and the background is that
22 your country can only grow half the food that it needs
23 to feed itself. We must bring in raw materials,
24 process them, and reexport them in order to feed the
25 other half of your family. If you purchase anything

1 in this country that can be made in this country from
2 somewhere else, you're almost close to being a
3 traitor.

4 So if there is something, like these
5 standard ball bearings, that they are making there in
6 Japan, and somebody buys them somewhere else, you're
7 not a good person. You're not a good citizen.

8 We supplied some bearings to a branch here
9 in California of a Japanese company, and we had good
10 price, good delivery, and they were very happy with
11 everything, and for whatever reason, they moved the
12 plant back to Japan and sort of consolidated, and it
13 wasn't long before we lost that business very quick.
14 Nothing to do with any problems in supply or quality
15 or even price; they just aren't going to do it.

16 COMMISSIONER PEARSON: Thank you.

17 Dr. Kaplan, did you have anything to add to
18 this? You indicated an interest earlier.

19 (Discussion held off the record regarding
20 microphone.)

21 MR. KAPLAN: Two points. First, you asked
22 whether or not, given the performance of the ball
23 bearing industry over the period of review, whether
24 the orders have been effective, and I mentioned in my
25 testimony we did a study on what the effects were

1 using methods that the Commission normally applies to
2 advice it gives to Congress and the executive. We
3 found that there were hundreds of millions of dollars
4 of effects and that the operating income was five
5 percentage points higher as an industry than it would
6 have otherwise been.

7 On the second point, if an industry is not
8 in equilibrium, if there is some global shifting going
9 around, as you're suggesting, I think one thing that
10 the Commission should look at is where it will settle
11 when it's done, and will it settle differently if
12 there is dumping or if there isn't dumping. So we're
13 not saying that there isn't these other things going
14 on; we're saying does the existence of dumping have an
15 effect on what the final result will look like? And I
16 think the answer is a definite yes, and I think, in
17 this case, the effects will be large.

18 So even if there is some globalization and
19 transition going on, which people are talking about,
20 with the dumping going on, when it finally settles
21 out, the production will be more abroad, and there
22 will be greater imports and lower prices and more harm
23 to the domestic industry than it otherwise would be if
24 there was no dumping.

25 So in both contexts, we've seen benefits

1 over the order, and we will see benefits in the
2 context of globalization if the dumping was stopped.
3 It will negatively affect the domestic industry.
4 Thanks.

5 COMMISSIONER PEARSON: Okay. Mr. Chairman,
6 the light is changing.

7 CHAIRMAN KOPLAN: Thank you, Commissioner.
8 Commissioner Aranoff?

9 COMMISSIONER ARANOFF: Thank you, Mr.
10 Chairman.

11 I wanted to pick up on something that Mr.
12 Beckman raised in his direct testimony, although the
13 answer to the question may not necessarily come from
14 you, Mr. Beckman. But the testimony had to do with a
15 contract that was lost to supply ball bearing wheel
16 hub units that was lost to SKF for a Cadillac product,
17 and that was going to be supplied from a subject plant
18 in Italy. I wanted to ask if there is anyone here who
19 can provide, and if this is confidential, in the post-
20 hearing, any details about that situation, what
21 happened, what reasons were given.

22 MR. STEWART: This is Terry Stewart,
23 Commissioner Aranoff. Typically, the union would not
24 be involved in the contract negotiations. We did
25 supply the press article that had appeared. We know

1 that SKF had won an earlier contract which they were
2 supplying from their U.S. operations for the same type
3 of wheel hub unit to GM. Obviously, the other
4 domestic producer who is a major supplier of wheel hub
5 units to GM is Delphi, which is the reason that it was
6 in Mr. Beckman's statement. So we don't have
7 information other than the press article, which we
8 have already submitted. We'll be happy to take a look
9 to see if we can find anything else, but I'm not sure
10 that we'll be in that position.

11 MR. GRIFFITH: Terry, I can shed a little
12 light.

13 Commissioner Aranoff, this will give you a
14 little more sense of the special versus standard and
15 how the evolution takes place. The particular product
16 was something called, I believe, an X Tracker. That's
17 a brand name that SKF gave to it, and it fits the
18 category of custom. It was custom designed. It was a
19 new innovation in bearing design that was provided for
20 a light truck application. It gives it additional
21 rigidity and, in fact, is directly in competition with
22 one of our products.

23 It was, at that point, domestically
24 manufactured. They obviously have had enough success
25 with it now to go and offer it to another customer,

1 and so now it is rapidly shifting from being a custom
2 to a standard and will be as soon as one of the other
3 major companies takes it apart and decides either how
4 to match it or how to copy it, but that's the history.

5 Now, the decision to take it offshore in
6 terms of manufacturing is one only SKF can answer.

7 COMMISSIONER ARANOFF: Okay. I appreciate
8 that answer, and, in fact, Mr. Griffith, that leads me
9 right into my next question, which was to follow up on
10 a conversation that we were having in my last round of
11 questioning.

12 You had talked about the idea that when a
13 new, custom bearing is developed, a company that
14 developed might get the business for -- I think you
15 used the term "one generation," and I wanted to follow
16 up on that idea with you and ask you, how long is one
17 generation? What does that really mean?

18 MR. GRIFFITH: My comment was reflecting
19 primarily on the auto industry, and many of the
20 comments, I believe, from the ball bearing
21 manufacturers are talking about auto wheel hubs as
22 being the specific application. So it is the "life of
23 a vehicle." Often contracts for custom products are
24 issued for the life of a vehicle. So GM comes out
25 with a new pickup design in our case, and we will go

1 work and solve a particular break performance problem
2 or warranty problem, and they will give us a contract
3 for the life of that vehicle. That might be three or
4 four years.

5 Now, the next vehicle they launch, which
6 might be the next year, suddenly that product, that
7 technology, is in the open market, and suddenly we
8 will see competitors coming in and bidding against us
9 with exactly the same product unless there is a case
10 where we were able to protect it with the intellectual
11 property protection of a patent or something, and that
12 happens every day in Detroit.

13 COMMISSIONER ARANOFF: Okay. Is there
14 anybody who can comment on whether this phenomenon is
15 apparent or whether the dynamics are different outside
16 of the auto OEM segment of the market?

17 MR. STEWART: Commissioner, this is Terry
18 Stewart. There are two affidavits in our prehearing
19 brief from the president of the industrial bearing
20 segment for Timken that walks through this exact issue
21 in terms of how it plays out in industrial
22 applications, as well as from the president of the
23 automotive, and so we would encourage you to take a
24 look at those because it's a similar phenomenon.
25 Whether you get it for the life of an item or not may

1 vary between automotive and industrial.

2 I would say that you'll find testimony in
3 the affidavit that says to the effect that depending
4 on the OE account, you may compete with one or two
5 others, up to 10 others, for the original design, and
6 even after the design has been approved, you may be
7 asked to compete against others in terms of the price
8 once you've given a price, once you have gotten a
9 design. But that is all laid out in those two
10 affidavits.

11 COMMISSIONER ARANOFF: Okay. Thank you very
12 much.

13 Let me turn to a different area, and I
14 wanted to explore with you a little bit the issue of
15 gray marketing parts. Obviously, there is a fairly
16 lengthy discussion in the brief about why there is
17 this incentive for price arbitrage that results in
18 gray market product coming into the United States, but
19 what there isn't, and perhaps no one knows, is any
20 quantification.

21 Does anyone have any idea, either in the
22 market as a whole or for a particular product, how
23 much of either overall imports or subject imports are
24 actually gray market product?

25 MR. STEWART: Well, SKF will be up later,

1 and I believe their counsel was involved in the '337
2 case, so they may have an estimate as to at least what
3 their concern was in bringing the matter.

4 We raised the issue in the prehearing brief
5 and in the statement because our friends on the other
6 side have attempted to make the argument that there is
7 a limited number of people who are players in bringing
8 product into the country. The review of the data of
9 record both show that the people who sent in
10 questionnaires in the foreign countries don't account
11 for that much of what gets exported (a), and (b) there
12 is this entire phenomenon that if you have higher
13 prices than the U.S., which is what there are many
14 sources that tell you will be, that understandably
15 there are people who will be more than happy to act as
16 arbitrage folks and bring product in if the companies
17 themselves aren't.

18 So a statement from an SKF or an NTN or a
19 Koyo will have the value that you place on it, but it
20 doesn't tell you whether or not there will be big
21 explosions of exports, even if you accept their
22 statements at face value that they would not
23 themselves increase their exports. We do not have an
24 estimate as to the size of the gray market.

25 COMMISSIONER ARANOFF: Okay. I appreciate

1 that. I certainly intend to pose the question this
2 afternoon to Respondents, but if, for some reason, I
3 fail to get there, I do invite you all to respond to
4 it in your post-hearing brief.

5 MR. SALONEN: Commissioner Aranoff, if I
6 could --

7 COMMISSIONER ARANOFF: Mr. Salonen.

8 MR. SALONEN: -- Eric Salonen -- just add
9 very quickly to Mr. Stewart's answer, this was alluded
10 to in the statements, but I think it's also important
11 to note that, in 2003, Commerce made an important
12 change in terms of how it applies the all others rate
13 to imports, whether they are coming in from somebody
14 who has been subject to an administrative review or
15 not.

16 Typically, the gray market imports would be
17 brought in by a reseller or an importer whose entries
18 would not have been subject to administrative review.
19 Prior to 2003 -- there is a complicated discussion in
20 Commerce's determination announcing this change --
21 very often those gray market imports would be subject
22 to the lower SKF rate. In fact, this was a big
23 complaint in SKF's '337 complaint.

24 Beginning in 2003, Commerce changed its
25 policy so that now if they are not reviewed, they are

1 subject to the typically much higher, all others rate,
2 so, at the current time, one of the things that, in
3 fact, is keeping a lot of these gray market imports
4 out of the market is the fact that they would be
5 subject to the much higher, all others rate.

6 COMMISSIONER ARANOFF: Okay. Thank you, Mr.
7 Salonen. That's very helpful. Since my light is
8 turning yellow, I won't go to another topic. Thanks.

9 CHAIRMAN KOPLAN: Thank you, Commissioner.
10 Mr. Sperrazza, Mr. Griffith, Mr. Swinehart,
11 I would like to hear from you on this question. Also
12 after you respond, if either Mr. Conway or Mr. Beckman
13 has anything they want to add to this one, I would be
14 happy to hear from them as well.

15 It's as follows: I noticed that a wide
16 variety of sales terms are used by suppliers for their
17 sales of ball bearings. They include long-term
18 contracts, short-term contracts, and spot sales. For
19 the record, that discussion appears in our
20 confidential staff report at pages 3 and 4 of Chapter
21 5, the ball bearings chapter.

22 At least one producer, whose identity is
23 bracketed, reported that its sales were equally
24 divided between each of the three varieties of sales
25 terms. What is determinative of which of the three

1 you select for a given contract negotiation? When
2 answering, if you could tell me whether recent
3 increases in costs of raw materials cause you to lean
4 more to short-term contracts and whether there is a
5 higher prevalence to meet-or-release provisions. Who
6 wants to start with that?

7 MR. SPERRAZZA: Would you please repeat that
8 question? I never took shorthand. I was trying to
9 scratch down your request. I have it: long-term
10 contract, short-term, spot sales. What determines
11 increases in material costs, but there is part of your
12 question --

13 CHAIRMAN KOPLAN: I'll do it more slowly.
14 The question part is what is determinative of which of
15 the three you select for a given contract negotiation?
16 And then when answering, if you could tell me whether
17 recent increases in the cost of raw materials cause
18 you to lean more toward short-term contracts and
19 whether there is a higher prevalence to meet-or-
20 release provisions.

21 MR. SPERRAZZA: Whether there is a higher
22 prevalence --

23 CHAIRMAN KOPLAN: -- to meet-or-release
24 provisions in those contracts, in those agreements.

25 MR. SPERRAZZA: Basically, the determining

1 factor in long-term contract, short-term contract, or
2 spot sales is based on -- by the way, this is Gus
3 Sperrazza for the record -- is determined by what the
4 customer wants. If the customer is coming out six
5 months or a year in advance and says, I want a
6 quotation on this, for a product that you begin
7 delivery in six months or a year, that's basically a
8 long-term thing. But if he comes to you and calls
9 that day and says, Look, I have a line down, or we
10 didn't plan properly, and I need something in a few
11 days or a week or two weeks, that's a spot sale.

12 CHAIRMAN KOPLAN: Let me just understand one
13 thing. A short-term contract is a year or less.
14 Right?

15 MR. SPERRAZZA: Basically, correct.

16 CHAIRMAN KOPLAN: And a long term would be
17 more than a year.

18 MR. SPERRAZZA: Correct.

19 CHAIRMAN KOPLAN: Okay. Go ahead.

20 MR. SPERRAZZA: And then the spot sale would
21 be something that you would basically essentially take
22 off the shelf.

23 I was going to get to that long-term and
24 short-term issue that generally they will come out to
25 you with plenty of time to negotiate and talk and

1 arrange for a year or two- or three-year supply,
2 whatever it is.

3 Now, the increases in raw materials; we've
4 been trying to pass those on as best we've been able
5 to. The increases in the costs of materials have been
6 significant, but that hasn't changed the basic
7 approach of how the people purchase anything. If they
8 are used to long-term contracts, they are still into
9 long-term contracts. If they are short-term
10 contracts, they are still into short-term contracts.
11 Spot sales; if people are in a situation that's
12 indicated for a spot sale, they are doing spot sales.

13 Material costs haven't affected that, in my
14 opinion.

15 CHAIRMAN KOPLAN: What about meet-or-release
16 clauses?

17 MR. SPERRAZZA: Excuse me?

18 CHAIRMAN KOPLAN: What about meet-or-release
19 clauses?

20 MR. SPERRAZZA: What kind of release?

21 CHAIRMAN KOPLAN: Meet or release?

22 MR. SPERRAZZA: Oh, meet or release.

23 CHAIRMAN KOPLAN: Yes.

24 MR. SPERRAZZA: I've seen more pressure over
25 the years for people who control their inventory, they

1 want the supplier to control the inventory. Is that
2 what you're driving at?

3 CHAIRMAN KOPLAN: Yes.

4 MR. SPERRAZZA: Yes. They want the benefit
5 of a big price break but don't want the responsibility
6 of taking all of the material. Is that what you're
7 driving at?

8 CHAIRMAN KOPLAN: Yes. Thank you.

9 Mr. Griffith or Mr. Swinehart?

10 MR. SWINEHART: Bob Swinehart. We don't
11 tend to have many long-term contracts, but after the
12 experience of the last few years where we have put new
13 contracts into place, we will try to have either an
14 index or material price escalator where the price is
15 adjusted. For instance, you can say that X percent of
16 your sales price is made up of material, and we'll
17 have a base price on material, and we can have an
18 indexed price increase based on the change in material
19 and cover it that way. That's fair to both parties.

20 Sometimes in a negotiation, people will not
21 accept that. If they will not, then we would probably
22 try to move to a little shorter period in terms of the
23 contract.

24 CHAIRMAN KOPLAN: Thank you. Mr. Griffith?

25 MR. GRIFFITH: This is Jim Griffith.

1 Chairman Koplan, we use all three forms of business
2 dealings. Again, as I indicated in my response to
3 Commissioner Hillman, the automotive side, the large
4 OE side tends to be longer-term contracts. We got
5 caught in the last three years without sufficient
6 release for raw materials, and that has depressed the
7 profitability, particularly in the automotive
8 business. That's been one of the major factors in
9 that business for us.

10 As a general statement, there is a slight
11 move toward shorter-term contracts because it does
12 give you the ability to adjust if there is some
13 extraneous factor that happens, but probably not
14 significant in terms of the total volume of business.
15 Each time we renegotiate a contract, we either adjust
16 for the raw material costs or put a clause in. On
17 spot sales, we generally have the ability to adjust
18 price and, therefore, have been able to recover from
19 raw material costs. And meet-or-release clauses; I'm
20 assuming what you mean is if a customer comes in with
21 an equivalent product at a lower cost, would you be
22 willing to meet that price, and we generally do not
23 use that term in our contracts.

24 CHAIRMAN KOPLAN: Okay. Thank you.

25 Mr. Conway or Mr. Beckman, did you have

1 anything to add? If not, I'll move on to my next
2 question.

3 Again, coming back to domestic producers, I
4 would like to hear from each of you on the following.
5 The Schaeffler Group's prehearing brief claims that
6 most European subject imports do not compete with
7 domestically produced bearings. For example, on page
8 47, they state that, and I'm quoting, "in essence,
9 Germany remains the source for specialty bearings that
10 cannot be obtained elsewhere."

11 On page 48, they claim that the pricing data
12 confirms that German product largely consists of types
13 not produced in the U.S.

14 And on pages 52, 53, and 56, they argue that
15 if imports from France and Italy were to increase,
16 they would displace nonsubject Chinese imports instead
17 of U.S. production. They claim that the pricing data
18 collected by the Commission provides evidence of
19 limited competition between the U.S. and French and
20 Italian ball bearings. How do you respond?

21 Mr. Stewart?

22 MR. STEWART: I would be happy to start, Mr.
23 Chairman. First of all, Germany is one of the largest
24 -- I believe they are the second-largest ball bearing
25 exporter in the world, so the characterization of what

1 they are exporting at the moment versus what they
2 produce is not a meaningful characterization of what
3 would happen should the orders go away.

4 Second, there has always been, because of
5 the large number of part numbers, any time you pick
6 five, six, or 10 part numbers where you have an order
7 in place, it is unlikely that you are going to get
8 significant price interaction because if those items
9 are being sold at low prices, they are not likely to
10 be coming in from the subject countries; they would be
11 coming in from other operations the Schaeffler Group
12 or others have.

13 So if they believe that that's the case,
14 presumably they would identify the total range of
15 products that they produce in Germany, provide that to
16 the Commission, and the other German companies would
17 as well, and then you would be able to see whether
18 there was any significant potential for overlap.

19 CHAIRMAN KOPLAN: Does anybody want to add
20 to that, or did Mr. Stewart cover it for you?

21 MR. SPERRAZZA: I think he covered it,
22 Chairman. I would add to that that it would be a very
23 simple thing --

24 CHAIRMAN KOPLAN: Mr. Sperrazza.

25 MR. SPERRAZZA: -- yes, Mr. Sperrazza --

1 sorry -- to show you or submit the catalogs that we
2 have that show that the European manufacturers, in
3 their catalogs, produce everything that we produce. I
4 don't know where that statement comes from.

5 CHAIRMAN KOPLAN: I would appreciate it if
6 you would do that post-hearing. Will you do that
7 post-hearing?

8 MR. SPERRAZZA: Of course, I will.

9 CHAIRMAN KOPLAN: Thank you. Yes?

10 MR. GRIFFITH: This is Jim Griffith again.
11 This comes back a little bit to the fragmented nature
12 of the ball bearing industry and the question of what
13 part of the industry are you talking about. In our
14 aerospace business, our largest competitors are
15 European competitors, so it's a heads-on, ball bearing
16 competition. In the machine tool business, the same
17 thing: Heads-on competitors are there, also Asia to
18 some extent.

19 I think the example of the SKF X Tracker
20 wheel bearing is a perfect example that says if you
21 took all of the wheel hub part numbers in the
22 automotive industry, you would probably find that
23 technically the Schaeffler group is correct, but if
24 you looked at the capability to manufacture those,
25 there is no question that there is an interchangeable

1 capability to manufacture those between the U.S. and
2 Europe.

3 CHAIRMAN KOPLAN: Thank you. I know my red
4 light is on, but, Mr. Swinehart, did you want to add
5 anything to that?

6 MR. SWINEHART: No. I think the last point
7 is really important, the ability to do it, and I'm
8 amazed by the statement.

9 CHAIRMAN KOPLAN: Thank you. Thanks for
10 indulging me.

11 Commissioner Hillman?

12 COMMISSIONER HILLMAN: Thank you. This may
13 take up a little bit on where that last question just
14 ended, but if I step back for a minute and read the
15 briefs from a big-picture perspective, the opponents
16 of continuing these orders are basically arguing that
17 there has been this globalization and rationalization
18 in the bearings industry, both here and throughout the
19 world, resulting in the fact that

20 standard, and as they put it, lower-value,
21 custom bearings -- the production of those has shifted
22 to low-wage, largely nonsubject countries while the
23 production in the developing countries, including the
24 United States, obviously, has been focused on higher-
25 value, custom bearings. In your experience, is this

1 true? The standard, low-end products have all been
2 moved, pushed, to low-wage countries, leaving you all
3 producing the custom, higher-end, highly developed,
4 more geared to the OEM market, higher-end product.

5 MR. STEWART: The answer to that is that is
6 not correct. If you look at even the SKF price list,
7 which is in the questionnaire response that we've
8 submitted, where they have identified country of
9 origin of the standard parts that they have on their
10 price list, there is a huge number of parts, standard
11 parts, in Italy and France in the price list and other
12 countries where they are producing. Yes, they have
13 some parts in the others, but the standard sizes, the
14 high-volume sizes, there may be capacity being added.
15 You have expanding demand in places like China, but
16 it's not the case that you have eliminated "standard
17 bearings."

18 Your data, even with the undefined term,
19 what is standard, what is custom, shows that there is
20 substantial overlap with the orders in effect between
21 standard at the OEM, standard at the aftermarket
22 between domestic and subject and custom at the OEM and
23 custom in the aftermarket between domestic and the
24 subject countries.

25 So when we did these cases back in 1988 on

1 ball bearings, the same people who were buying
2 "custom" were buying then that are buying now. The
3 same evolution from custom to standard that existed
4 then exists now. So one can try to create the
5 confusion that somehow there is not competition, but
6 that simply is not right. It's not true. There is
7 competition, particularly with the countries that are
8 subject to the orders because these are the major
9 global players. They are the major global players
10 competing against the major U.S. players.

11 COMMISSIONER HILLMAN: Mr. Sperrazza, you
12 wanted to comment as well.

13 MR. SPERRAZZA: I'm glad that Mr. Stewart
14 took a few minutes to explain that so I could cool
15 off. That is an absolutely absurd statement about
16 this custom and standard. Basically, you see
17 everybody's catalogs. Everybody is making standard
18 product, and why would a customer ask for a custom
19 bearing? It's going to cost him more. As soon as
20 there is any volume in that bearing, let me tell you
21 something, it's not custom anymore because everybody
22 is in after it, and it becomes standard. Ninety-
23 eight, 99 percent of what we make is standard.

24 COMMISSIONER HILLMAN: Just to make sure I
25 understand this issue of the catalogs, again, because

1 I'm trying to make sure that I'm putting them in the
2 proper context, both in terms of their significance on
3 the price list as well as the general catalogs, would
4 you say that everything that is listed in a catalog
5 would be considered a standard bearing?

6 MR. SPERRAZZA: Pretty much, pretty much.

7 COMMISSIONER HILLMAN: Everybody agrees, if
8 it's in a catalog, if it's a catalog-listing item, it
9 is a standard bearing.

10 MR. SPERRAZZA: I think everybody would
11 agree with that because everybody's catalog would have
12 similar stuff, and there's interchanges that cover all
13 of the different companies. So this shift to custom
14 is just absolute nonsense.

15 COMMISSIONER HILLMAN: Okay. If I can then
16 go back just to finish up on the issue of pricing just
17 to make sure I understand it, a number of you have
18 used this phrase, that prices in the U.S. market are
19 less depressed as opposed to higher, which would
20 normally be the term that we would hear, that prices
21 in the U.S. are higher than they are in the rest of
22 the world. You all have collectively consistently
23 used this phrase, "less depressed."

24 I just want to make sure I understand why
25 you're doing that. Is it your contention that you

1 just don't want to describe the U.S. market as higher
2 prices and that prices have gotten higher, or is it
3 that you think the world's prices are somehow
4 depressed, and you're trying to convey that?

5 MR. STEWART: This is Terry Stewart.

6 COMMISSIONER HILLMAN: I won't comment on
7 the degree of coaching of testimony. Everybody uses
8 the same phrase.

9 MR. STEWART: Since the ball bearing
10 industry in 2005 was at break even, for domestic
11 producers to describe the pricing situation as
12 anything other than less depressed since they are not
13 making any return would be intellectually
14 inconsistent. It is obviously the case that it is
15 also higher than the prices in some of the other
16 markets, but the key is that you have an industry that
17 is earning nothing, has lost money collectively over
18 the last three years, and if those prices are higher
19 in the sense that they are getting more money, then
20 this is an industry nobody should be in.

21 COMMISSIONER HILLMAN: I guess I'm wanting
22 to hear from the industry witnesses. I take that
23 answer to say that your view is, yes, worldwide,
24 prices are depressed, below what they should be under
25 some scenario of some level of profitability. Is that

1 basically the industry's testimony that everywhere in
2 the world prices are depressed; they are just less
3 depressed here?

4 MR. GRIFFITH: This is Jim Griffith.
5 Commissioner Hillman, when you say all prices
6 everywhere in the world, you obviously have to stop
7 and recognize it's not true of all prices everywhere
8 in the world, but these industries are industries
9 where the rate of productivity increase in factories
10 is faster than the rate of demand in the market, and,
11 therefore, for the past 20 years, they have been
12 subject to structural excess capacity.

13 When you add to that the fact that in China
14 new investments are going in at a faster rate than the
15 one market, you have a characterization in an industry
16 with high fixed costs, high capital intensity, and
17 structural excess capacity, you have a propensity to
18 marginal price, and, therefore, our industry view of
19 depressed pricing is probably pretty broad and pretty
20 accurate.

21 COMMISSIONER HILLMAN: If I can then go --
22 you've touched on a lot of issues -- it's tricky in
23 this industry in terms of how much reliance anybody is
24 comfortable putting on capacity data and other pieces
25 of data given the degree of product shifting and

1 everything else that goes on with it. If we focus,
2 instead of capacity, on global production, actual
3 global production, I guess, first, I'm wondering
4 whether you're aware of any additional data on global
5 production that could be provided to the Commission.

6 Secondly, my understanding is there is a
7 group that does report on this and whether the reports
8 of that group could be made available to the
9 Commission.

10 MR. STEWART: We will see what we can put in
11 the post-hearing brief, Commissioner.

12 COMMISSIONER HILLMAN: Okay. I appreciate
13 that.

14 Dr. Kaplan, in your oral testimony, and I
15 don't know whether this is what is going to be
16 included in your third study that is yet to be
17 submitted to the Commission, is this issue of the five
18 strategies that companies will take in terms of
19 increasing their sales in the U.S. market. These are
20 transplants that are already located here, whether
21 they are going to ship more of their production back
22 home and then send in the imports, whether they are
23 going to make a slightly different product mix so that
24 they are not directly competing with what they are
25 already producing here, et cetera, the five strategies

1 that you've outlined.

2 To the extent that your argument is that in
3 the first review those of us that were here got it
4 wrong, that we made a mistake, and we should never
5 have lifted these orders, proof positive is what's
6 happening, are you examining, to the extent that we've
7 lifted orders on some of the products, which of these
8 five strategies were, in fact, employed to the extent
9 that we have seen an increase in imports, and should
10 that tell us anything about what would happen vis-a-
11 vis the companies that are still subject to the order?

12 MR. KAPLAN: Well, that's a good question.
13 The multinational is going to maximize profits
14 worldwide, and depending on what their product mix is
15 and what their marginal costs are at the different
16 facilities and their capacity utilization at the
17 different facilities will determine which strategy
18 they adopt.

19 So the major point was that in a competitive
20 market, if you have a border measure that's distorting
21 prices or, in this case, undistorting prices in the
22 context of dumping, that when you remove that, the
23 profit-maximizing nature of the firm will shift
24 production to the lower cost area.

25 COMMISSIONER HILLMAN: My only point is some

1 of this is theory, and, on the other hand, you have
2 this rare opportunity to actually look at what
3 happened because you have some real examples. So I'm
4 just trying to make sure I understand whether what
5 you're doing is looking at what actually happened
6 between the time the orders were lifted in 2000 and
7 now or whether this is purely a modeling exercise of
8 what strategies might, in theory, be employed, and
9 given that the red light is on, I'll let you address
10 that in the post-hearing when the actual study, I
11 think, is to be presented. Thank you.

12 CHAIRMAN KOPLAN: Thank you.

13 Commissioner Lane?

14 COMMISSIONER LANE: Mr. Beckman, you listed
15 a number of plant closings since 2000. Have there
16 been any expansions or new facilities opened since
17 2000 which resulted in any job gains, and if so, where
18 or in what bearing lines have there been any such new
19 facilities or expansions?

20 MR. BECKMAN: Commissioner Lane, I would
21 only be familiar with the new facilities that the UAW
22 would have some contact with. I'm not aware of any
23 newly organized, newly built facilities that fall into
24 that category. There are, however, additional
25 facilities where the UAW represents workers, including

1 in Ann Arbor, Michigan, which are slated to close next
2 year. So there are more closings that we can see on
3 the horizon. There aren't any newly organized
4 facilities that I'm aware of.

5 COMMISSIONER LANE: And these produce
6 bearings that you are talking about the closings?

7 MR. BECKMAN: Yes.

8 COMMISSIONER LANE: Mr. Stewart, do you have
9 an answer to that question, in addition to what Mr.
10 Beckman said?

11 MR. STEWART: Why don't I propose this,
12 Commissioner? We would be happy to try to go through
13 the record and pull out -- much of what is there is
14 probably in the confidential record for any of the
15 producers. If there were additions, they would be
16 listed. I had thought that the staff report had
17 identified where there had been additions made. I
18 know, in the tapered side, there have been a few
19 announced investments or expansions in certain
20 facilities in addition to the closures, but if it
21 would be permissible, we'll try to handle it that way
22 so we can give you a comprehensive answer.

23 COMMISSIONER LANE: Okay. Thank you.

24 Mr. Beckman, I want to go back to you and
25 talk about the Sandusky facility and its problems.

1 Could you please describe the lines of bearings that
2 were produced in Sandusky, and could you expand a
3 little bit on the problems that the output from that
4 plant are encountering? Are they problems relating to
5 foreign bearings coming in, or are they related to
6 problems in the automotive industry in the United
7 States?

8 MR. BECKMAN: Commissioner Lane, the
9 production at Sandusky are wheel hub bearings, and
10 they are sold to a number of customers. I don't have
11 intimate knowledge of the specifics of the operations.
12 I wish the representatives from the UAW local were
13 able to be here today to provide an in-depth answer.
14 I will try to get more detailed information for you on
15 this question.

16 There have been, and I think there was
17 testimony in the hearing in 2000 that there have been
18 some imports of bearings, wheel hub bearings, that
19 have competed with those that are produced in
20 Sandusky, and it's my understanding that that
21 competition continues. I recall that some of those
22 imports were from China. I'm not sure of the other
23 sources. But certainly the problems facing the U.S.
24 automobile companies and their level of production are
25 certainly a factor in the declining employment in

1 Sandusky in recent years and certainly in the last
2 year, but it's not the only factor in the decline in
3 production and employment. I will try to get more
4 information on that.

5 COMMISSIONER LANE: Thank you, Mr. Beckman.
6 Mr. Stewart?

7 MR. STEWART: There are also, I believe,
8 some bankruptcy filings that we will try to include in
9 the post-hearing brief that will shed light. I
10 believe that a lot of the facilities, and there will
11 be someone from Delphi on the purchasing end here this
12 afternoon, I understand, but my understanding from the
13 bankruptcy filings is facilities that are in trouble
14 within Delphi are ones, in part, that have not been
15 able to get surcharges through for increased raw
16 materials on contracts that they have with GM. There
17 is significant competition on wheel hub units, and
18 increasing pieces of the wheel hub business that GM
19 used to have, while they are obviously shrinking, are
20 also no longer going to Delphi; they are going to
21 other producers.

22 COMMISSIONER LANE: Okay. Thank you.

23 Could you give me some idea of the
24 importance of the OEM market to your industry as
25 compared to the importance of the replacement market?

1 What percentage of various types of bearings are sold
2 to OEMs as compared to aftermarket? Mr. Swinehart?

3 MR. SWINEHART: The OEM market is clearly
4 very important. If you don't have the OEM
5 application, then you're likely not to get the
6 aftermarket application, and we like to refer to it as
7 the "read-and-replace aftermarket." So the OEM market
8 is very important.

9 It's also important in terms of the volume
10 that you get to utilize your machinery to a full
11 enough extent to get run sizes, lot sizes that are
12 economic order quantities in terms of setup and run
13 and just to spread your fixed costs.

14 So the OEM part of it is very, very
15 important. I don't know that it would be possible to
16 participate in the aftermarket only.

17 COMMISSIONER LANE: Thank you.

18 Did anybody else care to respond to that?
19 Mr. Griffith?

20 MR. GRIFFITH: Again, I've given the
21 breakdown of our business between OEM and aftermarket.
22 It's about 75 percent OEM and 25 percent aftermarket,
23 and obviously the aftermarket is critically important
24 from a profitability point of view.

25 I would echo Mr. Swinehart's comment as it

1 relates to the importance of getting the application
2 on an OE side from a volume point of view and having
3 the product replaced. Most of the replacement that is
4 done is like brand for like brand. We had a
5 particular example of that with the acquisition of
6 Torrington. While the opposing counsel laid that to
7 the success of getting into the needle bearing
8 business, quite frankly, we got into the ball bearing
9 business and into the spherical bearing business in
10 industrial applications and found that Torrington had
11 been focusing only on the aftermarket, in a sense,
12 creaming the profit from previous designs, and much of
13 the success we have had with that is taking those
14 products back into OEMs and reinvigorating the line by
15 taking it to OEMs and reinvigorating the aftermarket
16 with those products.

17 COMMISSIONER LANE: Thank you.

18 I would like to know if any of you are aware
19 of any labor practices or rules in any of the subject
20 countries involving guaranteed employment or pay that
21 would contribute to the likelihood that the subject
22 producers could increase production without a
23 comparable increase in their payroll. Mr. Stewart?

24 MR. STEWART: I was trying to make sure I
25 understood the question, Commissioner Lane.

1 In Mr. Griffith's testimony, there is
2 reference to an OECD report which shows which
3 countries have the most rigid labor systems in terms
4 of flexibility. That is obviously good for the
5 workers. It makes it more difficult for management to
6 increase or decrease. That particular cite would show
7 you a table that would show that Japan and the
8 European countries, in particular, with the exception
9 of the U.K., which is closer to the U.S. side of the
10 spectrum, can be characterized as having labor that is
11 largely fixed cost. What that tends to mean is that
12 where there is structural excess capacity, they are
13 more likely to maintain production in those countries
14 because the costs of laying off labor are dramatically
15 higher.

16 Now, that's the reverse of the question you
17 were asking me. The U.K. would be the closest to one
18 that would likely add capacity, assuming that they
19 didn't have excess capacity, but in this case you have
20 such massive global exports from all six of these
21 countries that product shifting from Country A to
22 Country B is a very real possibility. And while
23 Respondents often indicate that they could never do
24 that because they are so committed to these other
25 countries, if you look at the trade data in ball

1 bearings, you will find that there are massive swings
2 and movements from country to country over a one-to-
3 two-year time period when there are no orders. So
4 take the orders away, and why wouldn't you have a
5 massive swing of product back here, particularly if
6 prices are higher or less depressed than they are in
7 much of the rest of the world?

8 COMMISSIONER LANE: Okay. Thank you.

9 Mr. Chairman?

10 CHAIRMAN KOPLAN: Thank you.

11 Commissioner Pearson?

12 COMMISSIONER PEARSON: I note from the staff
13 report that imports of ball bearings from Japan during
14 the period of review are really not all that much
15 changed from their level during the original
16 investigation in the 1980s.

17 To what extent are those continued imports
18 of subject ball bearings from Japan driven by customer
19 requirements that Japanese bearings be used in the
20 U.S. manufacture of automobiles produced by companies
21 headquartered in Japan? In other words, do we have
22 Japanese demand in the U.S. for Japanese product
23 that's drawing in those bearings? Anyone from the
24 industry have familiarity with that?

25 MR. STEWART: Could I provide an answer? I

1 believe the Commerce Department just came out with its
2 last finding on the sunset review. If you go back to
3 1988 when the case on ball bearings was brought and
4 1989, the volume in kilograms from Japan to the United
5 States was 17 million. What is true in the last few
6 years is that it has been down between 12 and 13
7 million. So it may be comparable in dollar terms, but
8 the Commission found in the first sunset review that
9 the size of the U.S. market had doubled between the
10 original period of investigation and the first sunset
11 review, so even constant dollars would mean having a
12 market share from Japan.

13 COMMISSIONER PEARSON: Okay, okay. That's
14 interesting, but it's off the track from what I wanted
15 to understand, which really is, are the Japanese auto
16 manufacturers in the United States demanding bearings
17 manufactured in Japan, and is that a factor in
18 bringing them into the United States? Mr. Griffith?

19 MR. GRIFFITH: As a general statement, and
20 you would need to ask the Japanese suppliers when they
21 are up here that question, my impression is the answer
22 to that question is no. The Japanese auto industry
23 and large equipment makers have generally taken a two-
24 phased approach to localizing production. In the
25 first phase, they move the low-tech part of the

1 vehicle here, so they move the stamping of steel and
2 the sourcing of glass and that sort of thing, and they
3 keep the high-tech parts, the transmission and the
4 engine, which is where most of the antifriction
5 products are, made in Japan. So, yes, they import
6 those bearings, but they import them in a
7 transmission.

8 As a general statement, when the Japanese
9 auto makers have moved to the United States, they have
10 done that with an explicit intent of localizing the
11 production or the sourcing of the products, and it
12 works well when you reference back to the eighties
13 because when the duties were imposed in 1987, I
14 believe all three, all four, of the major Japanese
15 companies either bought an American company that was
16 undervalued at that point or invested in new capacity.
17 So all of them have the capability to produce here in
18 the United States.

19 COMMISSIONER PEARSON: If this is
20 confidential, respond in the post-hearing, but could
21 you advise whether bearing manufacturers domiciled in
22 the United States sell some bearings to the Japanese
23 transplants that are manufacturing autos in the United
24 States?

25 MR. GRIFFITH: Absolutely, we do. We have

1 an even opportunity to compete with the Japanese-
2 domiciled bearing companies.

3 COMMISSIONER PEARSON: Okay. So that's an
4 open competition in the United States, and you're not
5 sensing some discrimination there or anything like
6 that.

7 MR. GRIFFITH: No discrimination. In fact,
8 some of the customers have worked hard to open
9 themselves up to us. Timken has been investing in
10 engineering in Japan for 30 years to be able to do
11 that.

12 There is a delay in your ability to
13 penetrate that simply because in Japan they have
14 suppliers with whom they are very accustomed to
15 working. They have good engineering relationships.
16 They have designs that were done around their
17 capabilities, and all of those people are localized
18 here. So the challenge of getting into that market is
19 difficult, but I wouldn't call it a prejudice from
20 that point of view.

21 COMMISSIONER PEARSON: Okay. That was
22 really what I was trying to understand.

23 On page 24 of their brief, SKF argues that
24 U.S. producers have been receiving Byrd money, which,
25 obviously, that's on the record. Their quote:

1 "Evidence suggests that the U.S.-owned manufacturers
2 may have spent far more money during this time in
3 enhancing production in nonsubject markets than they
4 have in modernizing their U.S. production facilities."
5 How do you respond to that assertion?

6 MR. TIMKEN: Commissioner, this is Tim
7 Timken. I'll take a stab at that one. Obviously, the
8 CDSOA payments are a very controversial subject in the
9 industry and also with the WTO. We would be happy to
10 supply you information on how that money has been
11 spent in our particular case in a post-hearing brief.
12 There are details that we can get you that, so we'll
13 do that.

14 If you step back, and you look at the impact
15 of CDSOA on the profitability of the ball bearing
16 industry that we talked about earlier, even taking
17 those payments into account, you barely get to break
18 even. So the overall impact of Byrd, while it's been
19 significant, it hasn't done enough to recover from the
20 injury that's been inflicted on this industry by
21 dumped products.

22 COMMISSIONER PEARSON: Mr. Griffith, did you
23 have something to add?

24 MR. GRIFFITH: Not responding to the
25 discussions on Byrd, but just giving you a sense of

1 the investments of the Timken Company, if you look at
2 our capital budgets, which is directly the money we
3 invest, about a third of it is on maintenance, about a
4 third of it is on productivity improvement, upgrading
5 our factories in that term, and a third of it is
6 growth.

7 Now, given that 70 percent, roughly, of our
8 capacity is in the United States, that means two-
9 thirds of 70 percent of that capital budget is going
10 to go here almost by definition under those terms, and
11 that does not include the money that we spent in major
12 restructures, downsizing, closing of plants that we
13 saw as noncompetitive. That's outside of those
14 numbers, and we have gone through, I think, since the
15 last sunset hearing, I think we've been through three
16 major rounds of manufacturing restructuring in the
17 United States, having invested in that sense upwards
18 of \$200 million in that direction.

19 COMMISSIONER PEARSON: Thank you very much
20 for sharing that perspective. That helps put this
21 into context.

22 Mr. Conway and Mr. Beckman, do you have
23 thoughts on the continued Dumping and Subsidy Offset
24 Act disbursements and what they have done in the
25 bearing industry for the workers that your unions

1 represent?

2 MR. CONWAY: As they have been everywhere
3 throughout steel and within bearing, we have known
4 them and seen them come in, but, frankly, sort of as
5 an aside, while there has been money that's come out
6 of Byrd, it certainly hasn't been something that we've
7 viewed as money that was going to change the world
8 overnight, and our sense of it is that we were kind of
9 getting a dime back on a dollar. It was kind of like
10 getting unemployment, and you were laid off and
11 feeling good about that.

12 So it's not that we had tremendous feelings
13 about Byrd. It's been helpful, and we think, you
14 know, that kind of principle needs to continue, but we
15 don't see it as anything that's changed the world
16 here.

17 COMMISSIONER PEARSON: Mr. Beckman, anything
18 to add, or do you concur?

19 MR. BECKMAN: I don't really have anything
20 to add to that. We have not directly participated in
21 any of the funds that have been generated by this
22 process. It's pretty clear that certainly in this
23 industry and in other industries that have been
24 beneficiaries it has not resulted in tremendous
25 prosperity for the firms or the workers involved.

1 It's a relatively minor impact on the workers and on
2 the industry.

3 COMMISSIONER PEARSON: Okay. Thank you.

4 Mr. Sperrazza?

5 MR. SPERRAZZA: Gus Sperrazza. I would have
6 to say that the Byrd money to us has been essential.
7 We would have been in a situation where we would have
8 been laying off workers over these past few years, but
9 we've been able to maintain the workforce and keep
10 people working and make capital improvements.

11 We suffered years ago under not only the
12 dumping issues that went on but other illegal
13 activities that aren't within the scope of this
14 Commission here, which I would be more than willing to
15 share, and suffered another round of those
16 subsequently. Without that Byrd Amendment money, we
17 wouldn't be here today, and our people, we've been
18 able to give them raises over the past several years,
19 and we've been able to improve our equipment,
20 implement our plan, and without it, we wouldn't be
21 here today. We wouldn't have been able to do those
22 things.

23 Your question before, which I didn't get a
24 chance to respond to, is, have these orders, have they
25 helped anybody? Are they changing things, or are we

1 just delaying a dying process here, or are they doing
2 something constructive? Well, in our company's
3 position, we went from 125 people down to four because
4 of the dumping and the other illegal activities, and
5 when those orders came on, they gave us the breathing
6 room to get back on our feet.

7 Then we got hit with another round of stuff
8 that we're dealing with right now, and those orders
9 are have helped us and are going to continue to help
10 us to be one of the only two American companies making
11 this strategic product in this country today.

12 So they have been absolutely helpful. They
13 have been beyond helpful; they have been essential,
14 and our workers have felt the consequences and the
15 benefits of that money coming in because they have had
16 raises, and nobody had been laid off, and I would say
17 probably if they reconsidered their statements, those
18 other workers, maybe they didn't see the money
19 directly coming into their pocket, but because the
20 other companies like Timken and Emerson were aided by
21 that money, they were able to continue their benefits
22 to their employees because today if you go into
23 manufacturing, all you hear about is all of the
24 benefits everybody is losing. They are losing health
25 benefits, vacation benefits, give up this, give up

1 that, give up the other thing.

2 With that money in place in our company, at
3 least, and I'll bet you in those other companies, the
4 workers have not been cut back from their benefits,
5 their pay, and, to a degree, some of their job
6 security.

7 COMMISSIONER PEARSON: Mr. Sperrazza, you
8 probably can't see from where you sit that my red
9 light is on, but the chairman can see that.

10 MR. SPERRAZZA: Okay.

11 COMMISSIONER PEARSON: If I could very
12 quickly, Dr. Kaplan, for purposes of the post-hearing,
13 could you address this issue that we're discussing
14 because we have this assertion by the other side that
15 U.S.-owned manufacturers have spent far more money
16 during this time in enhancing production in nonsubject
17 markets than they have in modernizing their U.S.
18 production facilities? And I know you've done this
19 economic analysis that looks at return on assets and
20 that the return hasn't been high enough to do what
21 needed to be done for the industry. If you could tie
22 that together in the post-hearing, that would be
23 great. Thank you very much, Mr. Chairman.

24 CHAIRMAN KOPLAN: Commissioner Aranoff?

25 COMMISSIONER ARANOFF: Thank you, Mr.

1 Chairman.

2 One of the things that I have been talking
3 to Commission staff about is what we make of capacity
4 and capacity utilization figures in this industry.
5 They are not as helpful as they are in other cases.
6 And I wanted to tie that to one of the arguments, Mr.
7 Stewart, that you make in your brief, is that 100
8 percent capacity utilization by foreign producers has
9 not been a bar to large increases in imports in the
10 past. And I wanted to ask you, what is it about the
11 way that capacity is measured or reported that makes
12 that possible?

13 MR. STEWART: Well, a fair amount of the
14 information on capacity is in your confidential
15 record, not in your public record, but I believe if
16 you take a look at what is in the public record, there
17 would be a suggestion that if you take any facility,
18 you can think about the facility operating one shift,
19 two shifts, three shifts, five days, six days, seven
20 days, and depending on how people chose to construe
21 the instructions that were in the questionnaire, you
22 could get people operating very similar facilities
23 coming at dramatically different parts of that
24 spectrum of what one could claim as their capacity.

25 So I will say that I think a lot of the

1 issue has to do with how people set up the numbers.
2 If they want to set up a number to suggest that there
3 is very high capacity utilization, you can reduce the
4 number of shifts, you can reduce the number of days,
5 even if, on a regular basis, they are running more
6 shifts more days or if they view that as being
7 "unusual."

8 So unlike a lot of cases where there is a
9 pretty clear definition of what you're supposed to do,
10 the way we read the questionnaire responses is that
11 you had a lot of people coming up with their own
12 definition. It's not a whole lot different than the
13 custom versus standard. You have numbers. What those
14 numbers mean is anybody's guess because there is a lot
15 of flexibility in that other term as well.

16 The example that I would use in terms of
17 people being able to ship over 100 percent; I believe
18 if you go back and look at the public record in the
19 first sunset review and probably in the original
20 investigation, you would have found the Japanese
21 claiming to be north of 100 percent on capacity. On
22 the tapered roller bearing case, they claimed to be
23 north of 100 percent on capacity utilization, and
24 while they were here testifying that they could not
25 increase production, in fact, the Japanese pieces were

1 expanding production 20 percent that year.

2 So what's in a number? What's in a number
3 is usually what is in the definition, and the
4 definitions here are not consistent, they are not
5 mandated, and so it is whatever number the individual
6 companies have elected to present to you as their
7 "capacity."

8 COMMISSIONER ARANOFF: Okay. I appreciate
9 those answers, and I will ask you, because I think the
10 information is confidential, in your post-hearing
11 brief, if you would take a look at the company-by-
12 company capacity utilization numbers for the domestic
13 industry, there is at least one outlier there -- I
14 can't name the company -- and see if you can explain
15 why that is the way it is, and it may very well be
16 related to what you've just told me. Thank you.

17 Another question: If you compare across the
18 three industries that we're looking at, you do note
19 that productivity fell in the ball bearings industry
20 by a decent sized amount, and that's different from
21 what happened in TRBs and SPBs. Can anyone offer an
22 explanation for why that's true?

23 MR. STEWART: If you look at the plant
24 closings that have occurred, some of the facilities
25 have been high volume. In Timken's case, the Rockford

1 facility produced many millions of standard ball
2 bearings, employed 36 people. You close that
3 facility, and you suddenly make all of the other
4 facilities "look less productive." I believe it is
5 that type of a mix situation.

6 We know that in other of the Timken
7 facilities where you may have had automated lines
8 where they may have been working full time, maybe they
9 are working part time, maybe they have been
10 discontinued. All of those things go to the
11 productivity. It's not that the workers have become
12 less productive, but if you have fewer orders where
13 you're set up to do something on an automated basis,
14 you won't be able to run that line at the efficiency
15 it's designed to do.

16 COMMISSIONER ARANOFF: Okay. I appreciate
17 that answer.

18 Turning to another issue which we've come at
19 from a number of angles already today, Wilmer, Hale
20 argues in their brief on behalf of the Chinese
21 industry that Timken has structured its global
22 operations to supply the U.S. market with low-end
23 bearings from a number of countries. Now I know that
24 a number of the industry witnesses already responded
25 to that in saying, look, standard bearings are made

1 everywhere. They are not being concentrated in a few
2 low-wage countries. So I take that part of the
3 question as sort of asked and answered.

4 But can you tell me, either now or, if it's
5 confidential, in a post-hearing how much of Timken's
6 non-U.S. production actually enters the U.S. market,
7 and of that does it compete with Timken or other U.S.-
8 made bearings here?

9 MR. STEWART: We have submitted that, of
10 course, as part of the questionnaire responses that
11 the company has provided. I believe it's fair to say
12 that Timken is a much larger exporter than they are an
13 importer from their global operations, and that
14 corresponds with the large part of their overall
15 capacity that exists here in the United States.

16 In direct contradiction to the claim that is
17 made by counsel for the Chinese, you had Mr.
18 Griffith's testimony and the slide that showed the
19 three major facilities. Those products that were up
20 here on the table and other size ranges but are all
21 high-volume, standard products account for between 40
22 and 95 percent of three major U.S. manufacturing
23 facilities. That's what they produce today in the
24 United States. They are all high-volume, standard
25 part numbers that, in fact, compete with these

1 products that the Chinese are offering.

2 MR. GRIFFITH: Terry, if I could add to
3 that, that statement is factually incorrect, leaving
4 aside the specifics of the competition that Terry was
5 describing. There have been a number of comments
6 about our efforts to expand overseas, and I feel
7 obliged to respond to that.

8 In 1989, there was a major change in world
9 trade when the Berlin Wall came down, and suddenly a
10 whole market that was closed to us was opened to us,
11 eastern Europe and China, and we, as a global company,
12 have a choice: We either get into that, or we watch
13 competitors grow into that.

14 We have opened plants in Poland, in Czech
15 Republic, in Romania, and in China, but every one of
16 those plants was opened up specifically to give us the
17 capability to serve those markets as opposed to as an
18 effort to put low-performance product or high-
19 performance product, in any case, that we could bring
20 back into the United States. It is specifically an
21 effort to grow the company into a market space that
22 was opened to us in a revolutionary way, if that's a
23 fair use of words.

24 COMMISSIONER ARANOFF: Okay. Thank you very
25 much.

1 One last question. There was testimony just
2 earlier, I think, in response to Commissioner Pearson
3 that 70 percent of Timken's capacity is in the U.S.,
4 and leaving aside this whole question of what capacity
5 means anyway, is that a lower percentage of out-of-
6 home-country capacity as compared to European- or
7 Japanese-domiciled global companies?

8 MR. STEWART: I'm sure they would be able to
9 answer you this afternoon. We would be happy to try
10 to put the information together. I assume it's in
11 their annual report, so we can probably provide that
12 in the post-hearing brief, but they could certainly
13 answer it, I'm sure, directly this afternoon when they
14 are up here.

15 COMMISSIONER ARANOFF: Okay. I appreciate
16 that, and I do invite the Respondents to also answer
17 that question.

18 Thank you, Mr. Chairman. I don't have any
19 further questions.

20 CHAIRMAN KOPLAN: Thank you, Commissioner.

21 I'll start, Mr. Stewart, with you. This is
22 for the post-hearing. In your post-hearing
23 submission, and this relates to the tapered, in your
24 post-hearing submission, if you could have PKB and
25 Timken explain the qualification process as it applies

1 to their individual companies, if you could have each
2 company estimate the share of TRB sales in 2005 that
3 were the customers requiring either purchaser or
4 product certification and provide any available
5 supporting documentation.

6 The reason I'm asking that is that at page
7 12 of the Chinese Respondents' prehearing brief, they
8 claim, and I'm quoting, that "most OEM accounts, for
9 example, automobile companies, insist on qualifying
10 both their suppliers and the specific TRBs they
11 propose to supply. The qualification process can take
12 more than a year. Moreover, in many cases, specific
13 bearings are designed into a product that cannot be
14 substituted by an off-the-shelf TRB. At present, few
15 Chinese Respondents are qualified to supply major OEM
16 accounts in the United States."

17 That's the quote, and they are referencing
18 certain selected purchaser questionnaire responses on
19 this point, and that information is bracketed. When
20 you do your response, if you could include a comment
21 on our Staff Table TRB -- that's in Chapter 1 at page
22 5 and at page 17 of the confidential staff report --
23 which summarizes questionnaire responses regarding the
24 end uses of subject and domestic TRBs, and what I
25 would be asking you is do you think that that

1 accurately reflects the end use market? The table is
2 fully bracketed, but if you could factor that in, I
3 would appreciate it.

4 MR. STEWART: We would be pleased to. Just
5 one clarification, Mr. Chairman. I thought I heard
6 you say to respond for both Timken and Pacamor Kubar.
7 Pacamor Kubar does not produce tapered. Did I
8 misunderstand?

9 CHAIRMAN KOPLAN: That's my mistake. Thank
10 you. Let me move on to my next question.

11 Staying with you, Dr. Kaplan, the Schaeffler
12 Group makes the claim on page 45 of their brief that,
13 and I'm quoting, "there is no solid evidence to
14 support an argument that European prices are lower
15 than U.S. prices. The findings by the U.S. Department
16 of Commerce of positive dumping margins throughout the
17 20 years of antidumping calculations indicate that
18 prices in Europe remain higher than U.S. prices.
19 Department of Commerce margins with their underlying
20 calculations using precisely honed rules for matching
21 identical products and making extremely precise
22 adjustments to equalize prices are much more accurate
23 indicators of relative price levels than the price
24 lists or general marketing statements relied upon,"
25 and then we have brackets. If you could comment on

1 the price differential for ball bearings between the
2 U.S. and France, Germany, Italy, and the U.K. Are
3 U.S. prices generally higher or lower for identical
4 products in each of those countries? Dr. Kaplan?

5 MR. KAPLAN: Mr. Stewart discussed all of
6 the various pricing information that we looked at. In
7 our report on the effects of removal of the orders, we
8 also put in additional information regarding price
9 information from foreign producer questionnaires. I
10 think it makes sense to address the Commerce
11 Department issues in a post-hearing brief, given that
12 much of that information is confidential.

13 CHAIRMAN KOPLAN: Is any of that addressed
14 in that additional study that you're submitting post-
15 hearing?

16 MR. KAPLAN: No, it's not.

17 CHAIRMAN KOPLAN: It's not.

18 MR. STEWART: Let me take a crack at the
19 DOC. It's a somewhat fallacious argument by our
20 friends on the other side. As they know, dumping
21 calculations are made on a number of factors,
22 including if sales in the home market are below cost
23 on a constructed value. Large OEMs have significant
24 pricing power, often drive prices below cost. That's
25 the experience of most people who sell bearings.

1 So one could totally have a situation on OEM
2 type of transactions where the home market price would
3 be below costs, and to avoid or minimize dumping, the
4 price to the U.S. would be higher. That would be an
5 example where it would be both consistent with the
6 Commerce Department and consistent with there being
7 higher prices for export.

8 This is one of these kind of remarkable
9 arguments that get made by our opponents who have the
10 information. They are the producers in Germany. They
11 are the exporters from Germany and from France and
12 from the U.K. and from Italy. If they want to tell
13 you what the prices are, let them send in the
14 transaction values to you in the home market for
15 export, and you'll have the actual facts as opposed to
16 the best information a third party tries to submit.
17 Thank you, Mr. Chairman.

18 CHAIRMAN KOPLAN: Thank you for that
19 response.

20 Dr. Kaplan, beginning on page 52 of their
21 brief, they state: "As for those instances in which
22 subject imports undersold U.S. ball bearing shipments,
23 the figures from the staff report demonstrate that the
24 imports in question did so absent any adverse impact."

25 By way of argument, they are referring in

1 their ensuing discussion to information set forth in
2 our staff report regarding Products 18 and 20. Will
3 you respond to that argument for me in your post-
4 hearing submission because so much of their narrative
5 is bracketed in their brief?

6 MR. KAPLAN: Yes, I will.

7 CHAIRMAN KOPLAN: Thank you.

8 I would like the domestic producers to
9 comment on the following. On page 61 of Crowell &
10 Moring's prehearing brief on behalf of the Japanese
11 Respondents, they claim, and I quote, "subject country
12 and U.S. ball bearing producers have generally shifted
13 their production of standard ball bearings to
14 nonsubject countries because of their general
15 inability to compete against standard ball bearings
16 produced in nonsubject countries."

17 They go on to say: "Large, nationwide
18 bearings distributors must carry all multiple brand
19 names to satisfy customer preference. It is thus
20 improbable that subject country producers will be able
21 to manufacture and export to the United States
22 standard ball bearings that would be able to compete
23 on the basis of price against nonsubject country
24 imports in the aftermarket."

25 I know we've had a fair amount of discussion

1 about standard and custom, but I would like you to
2 respond to this quote that I lifted from their brief.
3 You're smiling, Mr. Timken.

4 MR. TIMKEN: Oh, no. I'm not smiling.

5 CHAIRMAN KOPLAN: Okay.

6 MR. TIMKEN: This is Tim Timken. We have
7 not shifted our ball bearing manufacturing overseas.

8 MR. SWINEHART: Bob Swinehart. Our plants
9 of manufacture for ball bearings are the same today as
10 they were in 2000.

11 CHAIRMAN KOPLAN: Okay.

12 MR. GRIFFITH: Chairman Koplan, I heard your
13 question different than Bob or Tim responded to. This
14 is Jim Griffith. If I understood your question, the
15 Japanese bearing manufacturers were saying that they
16 had moved their high-volume, "standard" ball bearings
17 to nonsubject countries a.k.a. China to compete with
18 China, and, therefore, they should be excluded from
19 the order because they couldn't ship them from Japan
20 anyway. If that's, in fact, what the question is --
21 I'm getting a nod from your seat, so let me proceed.

22 I think that comes down to the question of
23 how do you define what is a standard and what is a
24 custom ball bearing? There is no industry definition,
25 and we're not knowledgeable of where they manufacture

1 or where they import from or what capability.

2 Therefore, to that, we cannot respond.

3 CHAIRMAN KOPLAN: You heard that right.

4 Thank you.

5 Mr. Salonen, you reached for the microphone.

6 MR. SALONEN: Yes, Chairman Koplan. thank
7 you. Following up on Mr. Griffith's statement, one of
8 the big problems I think we have in this is the
9 question of how "custom" was defined. The staff did
10 their level best in trying to come up with a workable
11 definition that would give some sort of meaningful
12 information, and they were relying primarily on the
13 comments from the Respondents in doing so.

14 But when you look at what the various
15 characteristics are, one of those characteristics is
16 if the part number is a customer part number, we have
17 attached to Mr. Arnold's affidavit in the prehearing
18 brief an example of a ball bearing that has part
19 numbers for seven or eight different manufacturers and
20 for about nine or 10 different customers. It's the
21 same product. It's used in different applications,
22 but if it's being used by Volvo as a replacement, it
23 will have a Volvo part number. If it's being used by
24 General Electric as a replacement, it will have a
25 General Electric part number.

1 So when you have a definition that opens you
2 up to that sort of variability as to how to respond,
3 it really does raise questions as to just how reliable
4 the breakouts are in the report.

5 CHAIRMAN KOPLAN: Thank you, Mr. Salonen.
6 Are there any others?

7 (No response.)

8 CHAIRMAN KOPLAN: I have no further
9 questions. I want to thank you all for your responses
10 thus far, and I'll turn to Commissioner Hillman.

11 COMMISSIONER HILLMAN: I have just a couple
12 of quick follow-ups to make sure we have a complete
13 record.

14 On the issue of the miniprecision ball
15 bearings, Mr. Sperrazza, I just want to make sure I
16 understood your testimony. First, who else produces
17 these miniature precision ball bearings in the United
18 States?

19 MR. SPERRAZZA: Gus Sperrazza.
20 Commissioner, Timken Super Precision, formerly known
21 as Miniature Precision Bearing in Keene, New
22 Hampshire, and New Hampshire Ball Bearing on the West
23 Coast and East Coast that are owned by Minebe
24 Miniature Bearing, which is controlled in Tokyo --

25 COMMISSIONER HILLMAN: I appreciate that.

1 MR. SPERRAZZA: Nippon Miniature Bearing.

2 COMMISSIONER HILLMAN: Okay. Then you
3 stated in your testimony that the vast majority of
4 these miniball bearings, that the vast majority of the
5 sales are standard products --

6 MR. SPERRAZZA: Correct.

7 COMMISSIONER HILLMAN: -- as opposed to
8 custom products. Even if we can't quite define them,
9 as I heard it, you were saying for these miniature
10 precision bearings that are standard products.

11 MR. SPERRAZZA: That's correct.

12 COMMISSIONER HILLMAN: Would that be true
13 for imports as well?

14 MR. SPERRAZZA: That's also correct.

15 COMMISSIONER HILLMAN: Again, this may be a
16 data issue for counsel. If you could just help me
17 understand the data that we do have in our record that
18 tries to do this breakdown between custom and standard
19 product for these bearings and the particular import
20 source of them. Help me understand how I should read
21 that data in light of this testimony.

22 MR. SPERRAZZA: Well, I'm going to put it
23 in, as Tim Timken puts it, third-grade language. If
24 everybody has their machine tools, and everybody has
25 the tools to make a bearing a certain way, it's

1 standard, and if somebody tweaks it a little
2 differently, it's not standard. The only time that
3 that happens is when there is a prototype or something
4 new or different, but if any volume develops on it,
5 believe me, it gets standardized real fast because
6 everybody wants to drop the price. So usually custom
7 is something different that everybody isn't tooled for
8 today, but if there is any action there or any volume
9 coming up, they all tool for it, and it all becomes
10 standard.

11 COMMISSIONER HILLMAN: I appreciate that.

12 MR. STEWART: We'll respond in the post-
13 hearing brief.

14 COMMISSIONER HILLMAN: Given the data for
15 the particular imports and the source from which they
16 come is put in one place in the table as opposed to
17 another, if you can just comment on that issue. I
18 appreciate the answers. Thank you.

19 Then the last question, I think, is the Fed.
20 Circuit has recently issued a decision, Bratsk
21 Smelting, that involves the issue of nonsubject
22 imports, and I wondered if I could ask counsel to
23 brief the issue. That was an original investigation.
24 Do you think the Fed. Circuit's recent decision has
25 any implications in sunset reviews, and to the extent

1 that you think it does, what should we make of a case
2 such as this one in which a very significant volume of
3 what is currently nonsubject imports are products that
4 used to be subject prior to the first review, whether
5 that has any implications for how we should apply this
6 Fed. Circuit decision that addresses the issue of
7 nonsubject imports and what the Commission has to look
8 at as it takes into account nonsubject imports?

9 MR. STEWART: We would be happy to do that
10 in the post-hearing brief.

11 COMMISSIONER HILLMAN: I appreciate that,
12 and with that, I have no further questions but would
13 join the chairman in thanking you all very much for
14 your time, for your patience, your perseverance, and
15 your many answers to our many questions. Thank you.

16 CHAIRMAN KOPLAN: Thank you.

17 Commissioner Lane?

18 COMMISSIONER LANE: I would like to know
19 what changes to the product mix, range, or marketing
20 of spherical plain bearings have occurred since the
21 last five-year review, and have you made an effort to
22 increase production of the scarcer, larger, more
23 specialized bearings? Why or why not? I'm not sure
24 who to direct that to.

25 MR. GRIFFITH: I think this is mine. Jim

1 Griffith, Commissioner Lane.

2 I'm trying to translate your terms into
3 something I know, and this is a part of our product
4 line that I'm not deeply familiar with. The example
5 of a large, spherical, plain bearing is in the middle
6 of the table. It's the one that's dirty.

7 COMMISSIONER LANE: The one that I got the
8 grease off of.

9 MR. GRIFFITH: Yes.

10 COMMISSIONER LANE: Okay. Thank you.

11 MR. GRIFFITH: And it's used often in heavy
12 industries and that sort of thing. It is a very
13 competitive product range. Caterpillar would be, for
14 example, a regular customer of that kind of an
15 application. And it has been under severe, severe
16 cost pressure, particularly from, in this case,
17 nonsubject areas but really from all parts of the
18 market. It is a part of the market that other players
19 hold a much bigger share than the Timken Company, and
20 so our efforts in that are probably not that
21 significant.

22 If you need more information, I'll be happy
23 to get it for you. It's not stuff that I have at my
24 fingertips.

25 COMMISSIONER LANE: That's okay. Let's

1 stick with you, though. The U.S. capacity for SPBs
2 has dropped off in 2005. What are the main
3 constraints on production, and do raw material
4 shortages or equipment capacity have anything to do
5 with this?

6 MR. GRIFFITH: The primary constraint in
7 that market -- Jim Griffith again -- the primary
8 constraint in that one is not a capacity, raw
9 material, et cetera. It is the ability to be
10 profitable in the marketplace.

11 COMMISSIONER LANE: Okay. Thank you.

12 Now, the last questions I have; I would like
13 for Mr. Stewart or perhaps Dr. Kaplan or anybody else
14 that wants to comment to comment on the return on
15 investment and the trends on the return on investment
16 for all three products and what conclusions we should
17 draw from those trends and the returns in our analysis
18 on this case.

19 MR. STEWART: This is Terry Stewart. Let me
20 start. Only one of the three trends is in the public
21 domain, and so I'll limit my comments here to the ball
22 bearing data which is public. We'll be happy to
23 provide comments in the post-hearing brief on the
24 confidential information.

25 The trend in profitability is an indication,

1 coupled with the other factors that are identified in
2 the staff report, that this industry is in a state of
3 crisis, and that statutorily means that you should
4 make a finding that the industry is vulnerable, and
5 that should lead to a continuation of the orders. You
6 have six of the 10 largest exporting nations in the
7 world that are covered by the orders.

8 They are the ones that are most competitive
9 vis-a-vis domestic producers, and they have a major
10 stake in the U.S. market, and as Dr. Kaplan has
11 reviewed in his papers and in his testimony, removal
12 of the order not only intuitively would tell you that
13 it would happen, but based on the statements of
14 purchasers, based on the statements of producers, to
15 round out the line and all of the other factors that I
16 reviewed previously, one would expect that there would
17 be a substantial increase which would adversely affect
18 the domestic industry.

19 So the down trend in profitability does not
20 appear to be short term. There is substantial
21 perceived excess capacity, as Mr. Griffith described
22 it, structural excess capacity. That is a very
23 difficult time and a very difficult shakeout, and if
24 you remove the orders, we will simply have a fairly
25 rapid demise of a significant part of the domestic

1 industry.

2 COMMISSIONER LANE: Okay. In answering
3 these questions post-hearing, I would like for you to
4 state what you think a satisfactory return on
5 investment and a satisfactory operating income ratio
6 would be.

7 MR. STEWART: We would be pleased to do
8 that.

9 COMMISSIONER LANE: Thank you.
10 Mr. Chairman, that's all I have.

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

13 COMMISSIONER PEARSON: I've just got one,
14 Mr. Chairman.

15 There has been quite a bit of discussion
16 about price, and my understanding is that it's the
17 view of this panel that prices in the United States
18 generally are higher than for similar bearings in
19 other countries, and I'm wondering why is that the
20 case. Is it because of the antidumping orders, or is
21 it due to other factors?

22 MR. TIMKEN: This is Tim Timken. I think we
23 all said that the primary driver on the higher pricing
24 that we experienced in the U.S. is the antidumping
25 cases.

1 COMMISSIONER PEARSON: Does that make it
2 hard to export bearings without triggering antidumping
3 actions by other countries? Not so far?

4 MR. GRIFFITH: Again, the statement is a
5 general statement, and it is a difficult one -- this
6 is Jim Griffith -- to respond to in that sense, and it
7 depends entirely on the part of the market in which we
8 exist.

9 The comparisons in our testimony are largely
10 drawn from the aftermarket and largely drawn by
11 comparison to markets that have little domestic
12 manufacturing and, therefore, have opened themselves
13 up to all comers. Brazil would be a case in point of
14 a market that has chosen to say, this is not a
15 strategic industry. If you've got a lower price, sell
16 it here, and prices are lower.

17 Canada would be another one like that that
18 would simply say, if, in fact, there was an
19 opportunity, you would rather sell the product in the
20 United States than in Canada. So these are generally
21 not markets where there is competition in those
22 markets, as I understand the comparisons that have
23 been made.

24 MR. STEWART: Just to clarify, the
25 comparisons that were made, and I'm not sure that Mr.

1 Griffith would have had a copy of the full
2 questionnaire response in front of him, but he is
3 correct that there were distribution prices, but there
4 were distribution prices in Europe, in Canada, in
5 Japan, and in Mexico, and at least with the exception
6 of possibly Mexico, all of those are both important
7 markets and have substantial production capacity.

8 COMMISSIONER PEARSON: Mr. Swinehart?

9 MR. SWINEHART: Bob Swinehart. There may --
10 I'll emphasize the word "may" -- there may be
11 something to the fact that in this country power
12 transmission and bearing distributors play a
13 significant role in the supply chain of taking the
14 products to the end user and to small OEMs. They do
15 add value. They are adding something to this supply
16 chain process by having products in stock for
17 immediate delivery and doing training and education of
18 maintenance people in terms of installing bearings and
19 getting the maximum life out of it.

20 Distribution, at least in Europe, is not to
21 that degree. There are distributors, but a lot of the
22 major companies there also sell direct. So I think
23 that in trying to answer that, we would have to
24 understand that particular phenomenon a little bit
25 better.

1 COMMISSIONER PEARSON: Okay. Well, not
2 surprising, it's more complicated than one would wish.

3 I would just like to thank this panel very
4 much for the depth and breadth of your answers to our
5 questions. Mr. Chairman, I have no further questions.

6 CHAIRMAN KOPLAN: Thank you. Let me see if
7 there are additional questions from the dais. Seeing
8 that there are none, Ms. Mazur, does the staff have
9 questions of this panel before they are released?

10 MS. MAZUR: Mr. Chairman, the staff has no
11 questions.

12 CHAIRMAN KOPLAN: Thank you. Mr. Jaffe, do
13 those in opposition to continuation have any questions
14 of this panel before it's released?

15 MR. LIPSTEIN: Mr. Lipstein. No questions,
16 Mr. Chairman.

17 CHAIRMAN KOPLAN: All right. Well, with
18 that, it's been a long morning, and part of the
19 afternoon is gone. Thank you very much for your
20 responses to our questions. I thought this was an
21 excellent panel.

22 We will take a break now for lunch for 45
23 minutes, and I would remind you that this room is not
24 secure, so any business-proprietary information that
25 you have with you, you need to take with you. I also

1 hope that we're squared away for this afternoon
2 because I counted, I think, about 53 people who have
3 been sworn in by the secretary for testimony this
4 afternoon. I'm hopeful that the logistics in the room
5 will at least leave room for the commissioners to come
6 in and be able to participate. With that, I'll see
7 you back here in 45 minutes.

8 (Whereupon, a luncheon recess was taken.)

9 CHAIRMAN KOPLAN: We may resume. Madam
10 Secretary?

11 MS. ABBOTT: Mr. Chairman, the second panel,
12 in opposition to continuation of the orders has been
13 seated. All witnesses are sworn.

14 CHAIRMAN KOPLAN: Thank you; Mr. Jaffe, you
15 may proceed.

16 MR. JAFFE: Thank you; good afternoon,
17 Matthew Jaffe with Crowell & Moring -- we divided the
18 ball bearing presentation into two segments. The
19 first group of witnesses will discuss the massive
20 restructuring that has taken place in the ball bearing
21 industry since 2000, and the second group will discuss
22 the various industry sectors that define the ball
23 bearing industry today; Tom?

24 MR. ROUSE: Good afternoon, my name is Tom
25 Rouse. I'm the President and Chief Operating Officer

1 of NSK Corporation, located in Ann Arbor, Michigan.

2 Anyone who visited NSK's U.S. facilities in
3 the year 2000 would have had a hard time recognizing
4 them today. NSK operates four plants in the United
5 States. The Ann Arbor, Michigan and Clarinda, Iowa
6 plants have been producing what would be considered in
7 the industry as standard ball bearings and less
8 technical custom ball bearings.

9 Since 2000, NSK has had to close production
10 lines at its Clarinda plant and relocate a fair
11 portion of these bearings to Indonesia. In January
12 2005, NSK announced it had to close its Ann Arbor
13 plant and consolidate remaining production lines at
14 Clarinda. We took this drastic step not because of
15 the competition from industrialized nations -- what
16 you would call the subject countries -- but because of
17 intense competition from ball bearings manufactured in
18 non-subject countries, particularly China.

19 By the way, we couldn't have relocated this
20 production to NSK factories in Japan or the United
21 Kingdom because our facilities in those countries are
22 in the exact same position, struggling to compete with
23 products manufactured in non-subject countries.

24 But while we are contracting U.S. production
25 of standard and less technical custom ball bearings,

1 we are expanding NSK's Franklin and Liberty, Indiana
2 plants so as to manufacture more technical custom ball
3 bearings for automotive applications. I know that our
4 subject country competitors continue to make similar
5 investment to expand their U.S. operations, as well.

6 Our U.S. operations thus represent a
7 microcosm of the conditions of competition that impact
8 the ball bearing industry here in the United States
9 and throughout the world. More technical ball
10 bearings, especially those designed for automotive and
11 industrial machinery, are built and operated in
12 factories close to the customers.

13 Customer demands require this close
14 proximity in the United States, Asia, and in Europe,
15 and the opportunities for an interchangeable supply of
16 products across regions are few and far between,
17 because of the local demands and expectations
18 established by our customers.

19 By contrast, it is difficult to manufacture
20 standard and less technical ball bearings in
21 industrialized countries like the United States and
22 the subject counties, and expect to compete against
23 similar types of ball bearings manufactured in
24 emerging countries. It is simply a matter of the
25 difference in the cost of production between the

1 locations.

2 Even Timken's own actions in the past few
3 years reflect these global changes, as they have
4 closed their Rockford, Illinois plant which produced
5 mostly standard ball bearings and have resourced these
6 products from elsewhere.

7 Finally, I would like to note that while
8 this restructuring has been difficult, any time you
9 close a facility, it impacts people's lives. We are
10 coming out of these changes a better company, much
11 stronger than we were five years ago. We have
12 improved our position in the United States as a
13 manufacturer of high value ball bearing custom
14 designed for applications in automotive and industrial
15 machinery markets.

16 In other words, we are now focusing our
17 production on bearings that really can't be produced
18 anywhere else in the world to meet our customers'
19 needs. The financial forecast we have provided to the
20 Commission reflects this improvement.

21 What is true of NSK is also true of almost
22 every ball bearing company represented in this room.
23 Ball bearings from the subject countries pose no
24 threat to the restructured U.S. ball bearing industry;
25 thank you.

1 MR. BERGQVIST: Good afternoon, my name is
2 Bo Bergqvist and I'm the Vice President for SKF USA,
3 Inc. I'm here on behalf of SKF USA and the other SKF
4 Group companies.

5 SKF is the largest manufacturer of anti-
6 friction bearings in the world, and SKF is a one of
7 the largest U.S. manufacturers of anti-friction
8 bearings. We currently have bearing production
9 facilities in Kentucky, South Carolina, Georgia, and
10 New York.

11 SKF USA imports a certain amount of ball
12 bearings from its foreign sister companies, including
13 those in France, Germany, and Italy. However, we are
14 primarily a U.S. manufacturer and only import ball
15 bearings in order to complement our U.S. production.
16 In fact, imported ball bearings from subject countries
17 account for less than 10 percent of SKF USA's total
18 U.S. sales.

19 For the most part, SKF USA imports custom
20 bearings, such as Product 17 in the Commission's
21 questionnaire, like large size ball bearings from
22 Germany. The reason we import these and other
23 bearings, rather than produce them in the United
24 States is because SKF has a globally-rationalized
25 production.

1 For a multi-national manufacturer like SKF,
2 it's far more practical to source certain products
3 from related foreign companies, rather than produce
4 every type of bearing that the customer might require
5 in every country. Therefore, we import a small
6 percentage of the ball bearings we sell because we do
7 not produce those types in the United States, and we
8 must meet our customers' requirements.

9 There are also circumstances in which SKF
10 USA must import a bearing type, because not only does
11 SKF not produce the bearing in the United States; but
12 neither does any other U.S. manufacturer. Some
13 bearings are also imported as replacement parts for
14 bearings used by original equipment producers in their
15 products.

16 OEM's typically demand specific bearings for
17 their products. However, the replacement market for
18 some of those bearings is not sufficiently large to
19 maintain production lines in the United States.

20 Under the global rationalization of
21 production, those replacement bearings will be
22 manufactured in the facility where the bearings were
23 originally produced for the OEM.

24 Finally, I want to briefly address the
25 revocation of the dumping orders against the subject

1 countries. Since the imposition of these orders
2 almost 20 years ago, there have been significant
3 changes in the ball bearing industry. SKF USA has
4 greatly increased its production in the United States,
5 such that it has reduced its reliance on foreign
6 imports.

7 In addition, SKF USA does not price its
8 imports any differently than its US-manufactured ball
9 bearings. Thus, its imports do not negatively affect
10 the U.S. prices.

11 Likewise, if the orders were revoked, there
12 would not be significant change in the volume of SKF
13 USA imports from the current Soviet countries, because
14 we import these bearings even with the AD orders for
15 non-price reasons, as I discussed above.

16 This is reflected in the fact that our
17 imports from the subject countries have consistently
18 been at low levels and will remain at low levels, with
19 or without the anti-dumping orders. SKF, therefore,
20 requests the Commission to revoke the remaining anti-
21 dumping orders on anti-friction bearings. Thank you
22 for your attention.

23 MR. KLETT: Good afternoon, Mr. Chairman and
24 members of the Commission, my name is Daniel Klett
25 with Capitol Trade, Incorporated.

1 Since the original investigation, there has
2 been significant restructuring in the global ball
3 bearing industry, which has affected all
4 manufacturers, U.S. and foreign. This is an important
5 condition of competition, relevant to this sunset
6 proceeding.

7 The most significant is the shift of ball
8 bearing production from subject countries to both the
9 United States and to non-subject country locations,
10 caused by producers locating capacity on a global
11 basis to achieve operating synergies and efficiencies.

12 Market-oriented production focuses on
13 providing highly technical custom ball bearings to OEM
14 customers in their relevant markets. This production
15 is generally localized to be near customers and non-
16 price factors drive purchase decisions.

17 Cost optimum production seeks the lowest
18 cost production of standard and less technical custom
19 ball bearings, where technical specifications are less
20 important than cost efficiencies.

21 U.S. OEM end users that manufacture less
22 sophisticated products that contain bearings are
23 shifting production outside the United States. We
24 have provided an example of this in our pre-hearing
25 brief with respect to U.S. power-driven hand tools.

1 For these reasons, cost optimum ball bearing
2 capacity is shifting away from the United States,
3 Western Europe, and Japan. Based on data in your
4 staff report, you will see reductions in ball bearing
5 capacity in these countries, while at the same time
6 global producers have increased capacity in countries
7 like China, Malaysia, Singapore, the Czech Republic,
8 Hungary, Poland, and Romania.

9 These are fundamental economic forces that
10 have caused permanent, non-reversible structural
11 changes in the U.S. and global ball bearing industry.

12 SKF and Shaeffler now supply a very small
13 share of the U.S. ball bearing sales from subject
14 countries, and Japanese producers also now supply a
15 significantly greater share of the U.S. market from
16 their U.S.-based facilities.

17 This shift reflects a commitment by European
18 and Japanese producers, costing millions of dollars in
19 capital investment, to serve the U.S. market primarily
20 with U.S. production from market-oriented bearings and
21 with non-subject imports for cost-sensitive bearings.

22 European and Japanese producers continue to
23 export ball bearings to the United States from subject
24 countries. You have heard and will hear that modern
25 bearing production is rationalized so that most major

1 producers concentrate and manufacture particular ball
2 bearing types in specific plants.

3 All major bearing producers must source from
4 their many different global plants to fill out their
5 expansive produce line offerings, and to efficiently
6 balance market-oriented and cost optimum production.

7 Thus, there will always be some level of
8 imports that simply reflect the structure of the
9 globalized industry. For this reason, it is wrong to
10 interpret the continued existence in the U.S. market
11 of subject imports so as to maintain a toe hold for
12 material increases and import volume, should the
13 orders be revoked.

14 This is also evident from the fact that
15 subject import volume and market share has stayed at
16 relatively constant levels over the POR and, indeed,
17 since 1997, even with wide variations in the AD order
18 rates. Ball bearing producers in subject countries
19 now have a much greater stake in U.S. production and
20 third country production to meet the needs of their
21 U.S. customer.

22 This is a strong dis-incentive to increase
23 ball bearing imports from subject countries at prices
24 that would depress or suppress U.S. price levels.

25 In 2001, Timken announced a global

1 restruction effort that created focused factories for
2 each product line or component in a policy of awarding
3 all production of an item or a group of items to that
4 plant with a global, low-cost production facility.
5 Timken's U.S. ball bearing operations are a component
6 of its worldwide operations, and there is no reason
7 this strategy is not also applied to its U.S. ball
8 bearing operations.

9 In this proceeding, Timken characterizes its
10 global restructuring efforts, including reductions in
11 its U.S. ball bearing capacity, as an indication of
12 vulnerability. Exhibit 5 of our prehearing brief
13 includes transcripts of Timken conference calls with
14 investors, and Timken held another conference call
15 last week for its first quarter 2006 results.

16 Please review what Timken is telling you in
17 this proceeding and to the investment community, and
18 what the investment community is saying about Timken.

19 The exhibit that you have before you is a
20 one page landscape paper. It provides you some
21 examples of this information; what Timken is saying
22 here, what they are saying to the investment
23 community, and what the investment community is saying
24 about Timken.

25 It has characterized its restructuring

1 efforts, including a reduction in its U.S. ball
2 bearing capacity, as having positive effects for its
3 profitability. Yet, in its prehearing brief,
4 Petitioner asserts that "years of uninterrupted
5 dumping" have resulted in reduced capital
6 expenditures.

7 U.S. producers support continuation of the
8 orders; have received over \$330 million of ____ money
9 disbursements over the POR, related to the ball
10 bearing orders. If they did not invest these
11 disbursements in U.S. ball bearings, this more likely
12 reflects their strategic decision to "grow
13 disproportionately in Asia; this is the focus of our new
14 manufacturing capacity" as stated by Timken's
15 President in mid-2005.

16 Timken, like other global ball bearing
17 producers, is pursuing a strategy of reducing its
18 dependence on lower margin commodity bearings, and
19 focusing on higher margin, more diversified products,
20 particularly in the industrial market.

21 In its brief, Petitioner says that U.S. ball
22 bearing producers have no investment options, because
23 plants producing ball bearings cannot make other types
24 of bearings. This ignores the fact that companies do
25 have investment options, as reflected in Timken's

1 strategy to shift from less profitable automotive
2 customers to more profitable industrial customers, and
3 to expand its ball bearing capacity outside the United
4 States.

5 Finally, I keep hearing Petitioners assert
6 that the U.S. industry is fragmented. Nothing can be
7 further from the truth. There have been significant
8 consolidation since 2000, and the full line ball
9 bearing production is dominated by a limited number of
10 producers, with many of the smaller producers largely
11 being niche players; thank you.

12 MR. BUTTON: I'm Kenneth Button from
13 Economic Consulting Services. The next group of
14 witnesses will focus on the distinct industry sectors
15 within which the ball bearing operates. When the
16 Commission considers the evidence in this review, it
17 is important that it does so separately by industry
18 sector. You will see conditions of competition differ
19 significantly, whether a ball bearing is being sold to
20 the automotive OEMs, or to the industrial OEMs, or to
21 the distributors in the after-market.

22 Please note that some ball bearing companies
23 compete primarily in one sector, but only marginally
24 in another. The most obvious example is -- and this
25 is based on information that I received from our

1 clients -- Timken, it is a dominant player in the ball
2 bearing after-market sector, but it is all but absent
3 from the automotive OEM sector.

4 Beginning then with the automotive OEM
5 sector, it is the largest of the three sectors within
6 the U.S. ball bearing industry. Ball bearings
7 produced for this sector are overwhelmingly customized
8 for a particular application for a particular
9 customer, and virtually always require some form of
10 lengthy pre-qualification.

11 In short, the vast majority of ball bearings
12 produced for the automotive OEM sector are not
13 interchangeable. Customers thus infrequently change
14 the suppliers. As Graham Fullerton will discuss, this
15 is a sector in which price is far down on the list of
16 criteria used to select ball bearing suppliers.

17 Purchasers within this sector consider
18 quality, availability, product consistency and
19 reliability of supply above price, as purchasing
20 criteria. Thus, even if another theoretically-
21 interchangeable ball bearing is offered to an
22 automotive OEM customer at a lower price, it is highly
23 unlikely that it would be competitive against the
24 certified ball bearing already being used by that
25 customer. Simply put, an automotive OEM is not going

1 to compromise bearing quality, safety, reliability,
2 and the downstream safety that these factors provide
3 to people who ride in automobiles, just to get a lower
4 price; Graham?

5 MR. FULLERTON: Good afternoon, my name is
6 Graham Fullerton and I am Director of the Automotive
7 Group for Koyo, USA. I've worked in the bearing
8 industry for 40 years; more than half that time with
9 Torrington and MPB.

10 Koyo USA is one of the top 100 automotive
11 suppliers in North America, employing over 2,500
12 associates in the United States. Two of our five
13 North American manufacturing facilities are devoted to
14 bearings. Over 70 percent of Koyo USA's sales are
15 automotive-related; the majority of which involve
16 models manufactured in our U.S. facilities.

17 Koyo's goal for automotive bearings always
18 has been to localize production in the United States
19 to better serve customers in this market, as evidenced
20 by the majority of our U.S. sales being manufactured
21 in South Carolina. Our only motivation for importing
22 ball bearings is when specific customers' low-volume
23 requirements for a particular model don't support the
24 overhead of building new manufacturing lines in the
25 U.S.

1 Under these restraints, we must manufacture
2 in whichever part of the world we have available line
3 capacity. When volumes reach a level where Koyo and
4 the OEM can work together to build a new line in the
5 U.S., we do so. Koyo's continued investment in the
6 U.S. can be seen in our response to the Commission's
7 questionnaires.

8 Of the numerous applications for ball
9 bearings in the automotive industry, Koyo supplies
10 bearings for wheel, Class 8 truck transmissions, water
11 pumps, alternators, starter motors, and air
12 conditioning compressors.

13 Wheel bearings make up the largest portion
14 of our ball bearing sales, and on average, a new
15 vehicle requires over two years of costly development
16 and testing, involving significant interface with
17 customer engineering, prior to vehicle launch.

18 Wheel bearings are highly customized and
19 complex products that are unique to specific OEM
20 vehicle platforms. Because of this high level of
21 customization and development, once a bearing
22 manufacturer is sourced, it becomes extremely
23 difficult for an OEM to re-source with one of the
24 bearing manufacturers' competitors.

25 Never in my experience have I seen any

1 interest by Timken, nor have our customers advised us
2 of such interest, to participate in the ball wheel
3 bearing market. Indeed, for wheel bearings, our major
4 competition comes from the other Japanese suppliers,
5 such as NSK and NTN; also, the European suppliers, SKF
6 and Schaeffler Group Company, FAG.

7 Further, to the extent that there is
8 competition between Respondents for this market,
9 quality, reliability, and availability are far more
10 important to the customer than price.

11 Ball bearings for Class 8 truck
12 transmissions and water pumps also are highly
13 specialized and unique to specific vehicle platforms.
14 As with wheel bearings, we never have experienced any
15 interest by Timken; our major competition being the
16 same Japanese and European manufacturers identified
17 for wheel bearings.

18 Time doesn't permit me to discuss every
19 automobile ball bearing application. But if more
20 detailed information is required, I would be happy to
21 submit it later in writing.

22 The point is, Timken currently does not
23 supply in any of the ball bearing applications
24 currently supplied by Koyo. To our knowledge, Timken
25 never has seriously exhibited the desire to

1 participate.

2 It also is our experience that no other U.S.
3 manufacturer of ball bearings, with the exception of
4 Delphi for wheel bearings, has shown a significant
5 willingness or desire to participate in these
6 automotive ball bearing markets.

7 Customers buy from Koyo because they know
8 they will get consistent high quality and reliability,
9 with little fear of line shut-down. Without this
10 reputation, we never would get the opportunity to
11 quote.

12 Koyo and our customers are worried that the
13 Department's attempt to change the anti-dumping rules,
14 especially model match, would unfairly hurt some of
15 these low-volume models. We'll not expedite new lines
16 in the U.S., and encourage our customers to move
17 production incorporating bearings off shore.

18 The continuation of this order, in general,
19 will hurt Koyo, U.S. operations and the U.S. ball
20 bearing industry; thank you.

21 MR. BUTTON: The industrial OEM sector is
22 the next largest sector. As will be explained by the
23 industry witnesses, ball bearings produced for this
24 sector are split roughly between custom and standard,
25 with an additional important split between more

1 technical custom ball bearings versus less technical
2 custom ball bearings.

3 The degree of interchangeability of ball
4 bearings sold to this sector thus varies according to
5 the level of technical specifications required by the
6 industrial OEM customer for a given end use.

7 Purchasers, too, rank quality, availability,
8 product consistency, and reliability of supply above
9 price as purchasing criteria. So, again, lower prices
10 do not necessarily translate to sales; and also, do
11 not have a significant price depressive or suppressive
12 effect, especially for those applications that require
13 more technical custom ball bearings.

14 But here, unlike in the automotive OEM
15 sector, competition will vary by the industrial OEM
16 application. If the industrial OEM application is
17 more technical, then customers are unlikely to shift
18 among suppliers on the basis of price, because of the
19 primacy of non-price factors among the purchasing
20 criteria.

21 If, on the other hand, the industrial OEM
22 application is less technical, then customers are more
23 likely to shift among suppliers on the basis of price.

24 But it is in the less technical applications
25 that we see a market conundrum. Industrial OEM

1 customers that manufacture less technical products in
2 the United States are faced themselves with the same
3 competitive pressures that have driven the production
4 of standard and less technical custom ball bearings to
5 the low-cost locations in non-subject countries.

6 Thus, we see U.S. demand for such standard
7 and less technical custom ball bearings decreasing as
8 the customers for these bearings shift their
9 production out of the United States to lower cost
10 developing countries. Competition within the ball
11 bearing industry closely tracks these developments.

12 We currently anticipate within the United
13 States steady U.S. production for more technical
14 custom ball bearings, in order to supply the more
15 technical industrial OEM requirements, based on
16 quality and service considerations.

17 At the same time, we anticipate increased
18 non-subject imports of less technical custom bearings,
19 and standard ball bearings being sold to those
20 remaining less technical industrial OEM customers that
21 still have production located in the United States.
22 Subject imports, meanwhile, cannot compete for sales
23 of either of these two types of less technical
24 bearings; Peter?

25 MR. EICH: Good afternoon, my name is Peter

1 Eich, and I'm President of NTN Bearing Corporation of
2 America, also known as NBCA.

3 I have been with NBCA since 1982 in various
4 engineering and sales positions. I also currently
5 serve on the American Bearing Manufacturers
6 Association Board of Directors.

7 NTN has been manufacturing bearings in the
8 United States since 1971, and its investments in U.S.
9 manufacturing have grown steadily since that year.
10 NBCA sells a wide range of anti-friction bearings,
11 including ball bearings made in Japan by our parent
12 company, NTN Corporation.

13 NBCA also sells anti-friction bearings and
14 other products made by its related U.S. manufacturers.
15 These companies have six plants located in four
16 different states. NTN's commitment to production in
17 the U.S. has a long one that will continue without
18 regard to the dumping order on ball bearings from
19 Japan.

20 The industrial OEM market for ball bearings,
21 in my view, comprises several principle categories;
22 those of small, medium, large, and agricultural
23 bearings. The market for small ball bearings, which
24 comprises primarily standard ball bearings, is a
25 price-sensitive market. Here, small ball bearings

1 produced in China have made enormous in-roads into
2 NBCA sales, and have essentially captured this market.

3 NBCA has found that it cannot be price
4 competitive with Chinese-made bearings, so we no
5 longer try to compete in this market when the main
6 competitor is an importer of Chinese-made ball
7 bearings. Small low-cost bearings are also being
8 imported from other countries where manufacturing
9 costs are low.

10 Not only are prices of these bearings low,
11 they continue to decline. NBCA can only compete in
12 the small bearing market with U.S.-made product that
13 is engineered for more difficult operating conditions,
14 such as high temperature or high stress applications.
15 These are more customized bearings that are relatively
16 more expensive to manufacture.

17 The demand for medium and large bearings in
18 the U.S. is currently very strong. Medium and large
19 bearings are generally more difficult to manufacture
20 than smaller bearings, and are generally used in large
21 and expensive machinery and equipment, where the costs
22 the bearing failure are high. The factors that drive
23 sales in these markets include: engineering design,
24 bearing quality, reliability, service, and
25 availability.

1 Agricultural bearings are somewhat more
2 difficult to manufacture than other small bearings
3 because of the particular applications in which they
4 are used.

5 Chinese bearings have captured a portion of
6 this market, but not the entire market yet, because of
7 the higher engineering and quality requirements of
8 these bearings.

9 The antidumping duty order would, therefore,
10 affect only a few companies such as NBCA that continue
11 to source these products from Japan. Japan is not a
12 low-cost country, and the antidumping duty order
13 imposes additional anti-competitive costs on NBCA,
14 when we compete in supplying large agricultural
15 customers with the range of bearings these customers
16 demand.

17 Turning now to the global view, NTN is one
18 of the largest manufacturers of antifriction bearings
19 in the world. NTN has rationalized its production to
20 meet the demand of its global customers. The growth
21 of the NTN companies and the changes in the global
22 economy have led NTN to make changes in its production
23 and supply decisions.

24 Similarly, the rapid globalization of the
25 supply and demand for bearings during the last five

1 years have caused changes in the structure of the
2 domestic bearing industry that have affected the
3 fortunes of both domestic and multi-national bearing
4 manufacturers.

5 Thus, the revocation of the antidumping duty
6 order will not adversely affect the condition of the
7 U.S. bearing industry, because the order did not cause
8 the changes. Thank you.

9 MR. DAUN: Good afternoon, my name is Roger
10 Daun. I'm the Financial Controller of NMB Technology
11 Corporation. My colleague, Masahiro Tsukagoshi, the
12 Vice President of Finance of NMB USA, Inc., joins me
13 today and is available to answer questions.

14 NMBTC is the only U.S. importer of subject
15 ball bearings from Singapore. These ball bearings are
16 produced by our affiliates, NMB and the plumbing
17 industries, the only producer of subject ball bearings
18 in Singapore.

19 NMBTC's imports from Singapore consist
20 almost entirely of non-precision ball bearings from
21 nine to twenty-two millimeters in outer diameter.

22 NMBTC sells nearly all Singapore ball
23 bearings in the automotive OEM and industrial OEM
24 market sectors. My testimony today focuses on our
25 experience in the industrial OEM sector. Within the

1 industrial OEM sector, NMBTC sells less technical
2 custom ball bearings from Singapore, almost all of
3 which are for lower-end applications: like vacuum
4 cleaners, office equipment, and small motors.

5 Our affiliate U.S. producer, New Hampshire
6 Ball Bearings, does not import any ball bearings from
7 Singapore; and those it produces are different than
8 those that NMBTC imports from Singapore.

9 NMBTC sells to different customers for
10 different applications in what is a highly
11 heterogeneous market. The market share of subject
12 ball bearings in Singapore in all sectors has
13 plummeted, ending the period of near 0.1 percent.

14 Why, in the face of a low margin and a
15 declining normal duty rate, did Singapore fall so
16 significantly? The answer is, imports from China and
17 other non-subject countries with a low cost of
18 production. Singapore ball bearings cannot compete
19 with China in the least technical part of the
20 industrial OEM sector.

21 NMBTC has attempted to respond to Chinese
22 competition. We have sold only custom ball bearings
23 from Singapore for less technical applications to
24 differentiate them in the market. But even this has
25 not stopped Singapore's decline. Because the less

1 technical nature of the ball bearings makes them more
2 susceptible to competition with China.

3 As you can see from the dramatic decline in
4 Singapore market share, the difference in price was
5 too great; really in excess of Singapore's two percent
6 dumping margin. Revocation of the order will not
7 alter this business's decision for fundamental cost
8 structure reasons.

9 Chasing China for sales of less technical
10 ball bearings is a fools errand for Singapore or any
11 advanced economy country, irrespective of the dumping
12 orders. Thank you.

13 MR. BUTTON: The last sector that we will
14 discuss is the after-market, which involves sales to
15 distributors. It is a small sector and focused
16 primarily on the sale of standard ball bearings. As a
17 result, inter-changeability is possible; although as
18 our industry witness will discuss, interchangeability,
19 in practice, is less frequent than you would think
20 because of the conditions of competition, and mostly
21 involves non-subject sources.

22 Demand for ball bearings by the after-market
23 sector is expected to increase over the next few
24 years, because the demand for repair and replacement
25 ball bearings generally follows demand for the use and

1 purchase of vehicles and industrial machinery.

2 Price is a more important purchase criterion
3 than in the OEM sectors and, thus, U.S. ball bearing
4 producers serving this sector are, in theory, more
5 susceptible to price depressive and suppressive
6 effects. But, in practice, ball bearing imports in
7 this sector are dominated by shipments from non-
8 subject sources, where the lower costs of production
9 are better suited to standard ball bearing production.

10 Both U.S. producers and subject country
11 producers are at a competitive disadvantage to the
12 producers in non-subject countries like China.
13 Indeed, as part of the global restructuring efforts
14 described earlier, multi-national bearing producers
15 have shifted their production of standard ball
16 bearings to non-subject countries to maintain
17 competitiveness.

18 Thus, any price effects suffered by the U.S.
19 industry will be caused by non-subject imports, and
20 revocation of the orders is unlikely to lead to
21 significant price effects by reason of the subject
22 imports; David?

23 MR. HOOSER: Good afternoon, my name is Dave
24 Hooser, and I'm the National Account Manager for NSK.

25 Before I joined NSK, I was President of

1 Bearing Distributors, Inc., or BDI, the fourth largest
2 distributor of ball bearings within the U.S. after-
3 market sector.

4 BDI also operates in eight countries,
5 covering North America, Eastern Europe, and China.
6 There are four distributors that supply and service
7 over 50 percent of the after-market demand in the
8 U.S.: Motion Industries, AIT, Kaman, and BDI, in that
9 order.

10 In contrast to what you've heard about the
11 automotive and industrial OEM sectors, bearing
12 distributors mostly buy standard bearings. They then
13 sell these bearings to their automotive and industrial
14 customers in an MRO package. The "M" stands for
15 maintenance, "R" for repair, and "O" for operating
16 expenses.

17 To be precise, distributors sell bearings on
18 the basis of their ability to provide customers cost
19 savings and productivity enhancement. For example, a
20 distributor will work with a customer to find the
21 right product to lengthen the life of machinery. If
22 successful, that means less down time for the
23 customer. The distributor documents the cost savings
24 and increased productivity, and gets credit for it;
25 and likely, the next sale, as well.

1 So now the question is, which ball bearing
2 does the distributor sell to its customers and why?
3 Major bearing distributors offer nearly all brands of
4 ball bearings. Still, all ball bearings are not equal
5 in the eyes of the bearing distributors, because they
6 are not equal in the eyes of the customers.

7 Two brand names, in particular, that
8 dominate the after-market sector are Timken and SKF.
9 Timken is number one. Its brand recognition is so
10 strong among distributor customers, that often they
11 would ask for ball bearings manufactured by Timken
12 before Timken purchased Torrington and became a big
13 player in the ball bearing industry.

14 This means that in the after-market, Timken
15 has considerable market power, which enables it to
16 demand better product placement, inventory control,
17 and shelf space from the bearing distributors.

18 Thus, there is little room for other brands,
19 especially when most of the distributors' customers
20 shop with Timken or SKF already in mind. Customers
21 don't want to chance a breakdown by experimenting with
22 a new brand, no matter what the difference is in
23 price. It is thus difficult, near impossible, to
24 break that barrier.

25 On the other extreme is a small group of

1 customers that buy based on price, which means they
2 tend to purchase a bearing because it is the cheapest.
3 Standard ball bearings basically look all the same.
4 They have the same form, fit, and function that no
5 standard ball bearing manufacturer located in the
6 United States and subject countries can compete
7 against prices offered by standard ball bearing
8 manufacturers located in China, India, or Eastern
9 Europe.

10 It is thus more likely that the bearing
11 distributors will place a bearing manufactured in a
12 non-subject country into the MRO for these customers,
13 because it is more profitable to do so.

14 In conclusion, given the competitive
15 conditions that control the after-market sector,
16 removal of the anti-dumping duty orders will likely
17 have little or no impact on the U.S. ball bearing
18 industry with respect to competition in that sector;
19 thank you.

20 MR. KUETEMEIER: My name is Dieter
21 Kuetemeier. I am a Vice President of Shaeffler Group
22 USA, Inc., which has its headquarters in Ft. Mill,
23 South Carolina. I'm in charge of sales to the
24 distribution sector in all of North America.

25 For over 35 years, Shaeffler Group USA, has

1 been an affiliate manufacturer of ball bearings in the
2 U.S. under the INA, FAG, and Barden brand names.

3 The distribution business is quite different
4 from the OEM business, that deals in high volume sales
5 of limited bearing types to large American automotive,
6 industrial, and aerospace equipment producers. Many
7 of these bearings are custom made for specific OEM
8 applications. In our company, the majority of the
9 bearings sold to OEMs come from domestic production.

10 The distribution business is considerably
11 different. This business caters to distributors who,
12 because of the nature of that business, must maintain
13 very large inventories of a wide variety of different
14 bearings. This is because a significant part of a
15 distributor's business is therefore devoted to
16 supplying replacement parts to the after-market.
17 Distributors also sell standard bearings to small
18 OEMs, the automotive and industrial sectors.

19 Over the past five years, our after-market
20 business in the United States has changed
21 significantly. Today, we rely more and more upon ball
22 bearings manufactured in lower cost countries in
23 Eastern Europe and Asia.

24 The main reason for this change was the
25 increasing presence in the U.S. market of standard

1 ball bearings from China, beginning in the late 1990s
2 and early 2000 at significant lower prices.

3 This required a re-orientation of all
4 production of standard bearings away from Western
5 Europe and towards Asian and Eastern Europe. Today,
6 Shaeffler Group USA imports far more product from
7 these other markets than from Germany, Italy, or the
8 UK.

9 One of the Shaeffler Group's key corporate
10 policies is to rationalize production in one
11 geographical location, and to distribute bearings
12 produced in that location through our affiliated
13 companies all over the world.

14 Because of rationalization, it is rare in
15 our company for one bearing model or type to be
16 produced in more than one production location. Thus,
17 production in our Western European plant caters
18 principally to our European OEM customers, and
19 production in the United States caters essentially to
20 our American OEM customers. Our Eastern European and
21 Asian plants service the low-end market globally.

22 These philosophies will not change in the
23 event the dumping orders are revoked, as there are far
24 more important economic processes, including
25 substantial capital investments, relative labor costs,

1 and proximity to the markets, that determine trade
2 floors.

3 Due to the global restructuring of Shaeffler
4 Group's business, our Western European imports are an
5 extremely small part of our total U.S. sales. This,
6 too, will not change, regardless of the life or death
7 of this anti-dumping order. That concludes my
8 remarks; thank you.

9 MR. JAFFE: That concludes our discussion on
10 industry sectors. The remainder of the direct
11 presentation will address general matters; Max?

12 MR. SCHUTZMAN: My name is Max Schutzman.
13 I'm the counsel to the Schaeffler Group companies in
14 this review.

15 A number of key factors exist here that
16 demonstrate that subject imports from the four
17 European countries are likely to have no discernable
18 impact on the domestic industry.

19 One, the U.S. market share of subject
20 imports from these four countries is now considerably
21 lower than during the original investigation, and have
22 remained low over the past six years, despite
23 variations in anti-dumping deposit rates.

24 Two, the principle producers in these
25 countries, the Shaeffler Group and SKF, have

1 significant manufacturing presences in the U.S., with
2 U.S. sales from their American operations far
3 exceeding U.S. sales from subject countries.

4 Three, global restructuring that has
5 occurred over the past four years has seen the
6 emergence of significant ball bearing capacity by the
7 Schaeffler Group and SKF in low-cost third country
8 markets; and four, the significant growth of the
9 European Union during the same period has provided
10 major new export markets for the bearing production
11 capacity of the European producers. The U.S. is
12 simply not a major export market any more for them.

13 These facts and others presented in our
14 brief warrant a determination by the Commission not to
15 cumulate imports from each of the four subject
16 European countries; thank you.

17 MR. PEACOCK: My name is Tom Peacock and
18 with me, along with Graham Fullerton, is Tony Takuwa,
19 to answer questions. Tony and I both are from Koyo,
20 and have managed Koyo's anti-dumping compliance since
21 1989.

22 You've already heard about the significant
23 changes in the industry over the last five years,
24 including global restructuring by all of the major
25 ball bearing producers, including Timken. These

1 profound changes in the market place have made the
2 anti-dumping order obsolete.

3 The U.S. industry is doing well, as the
4 Commission found just three years ago in the
5 investigation of ball bearings from China. This order
6 now simply provides a windfall for U.S. producers by
7 strangling imports of ball bearings for which they
8 provided limited competition, at best.

9 The artificial restraint imposed by the
10 order is accented by the fact that import duties paid
11 by companies such as Koyo and our customers are handed
12 over to our competitors under the Byrd Amendment. The
13 phased-in repeal of the Byrd Amendment has not stopped
14 worldwide sanctions on exports of U.S.-made bearings.

15 This process of subsidizing our competitors
16 is aggravated by the fact that the margins are
17 artificially inflated through various techniques used
18 by the Department of Commerce, the most blatant of
19 which is the so-called "zeroing" practice. This has
20 also been repeatedly found to violate the WTO
21 agreements.

22 If zeroing had been eliminated, the dumping
23 margins for Koyo, along with most of the other major
24 Respondents in this room, would have been reduced to
25 negative levels years ago, and this order would have

1 died a natural death.

2 The Petitioners asked the Commission to
3 assume the U.S. ball bearing industry, which I think
4 they've testified as the majority now sitting here
5 before you, will be injured if this order is revoked.

6 To the contrary, the continued imposition of
7 anti-dumping duties and the alteration of model match
8 rules, which Graham mentioned, on imports from Japan
9 and other subject countries will ultimately encourage
10 our customers, the bearing consuming industries, to
11 move their production overseas in order to obtain a
12 secure supply of bearings that are difficult to now
13 source in the U.S.

14 Such a shift of downstream production abroad
15 will be the true cause of injury to the U.S. ball
16 bearing industry. It is imperative that this order be
17 revoked. Please do not be misled by comments that
18 removal of this order will lead to a surge of imported
19 products.

20 Examples such as tapered roller bearings
21 from Japan should be looked at more closely. Timken
22 imports of TRB parts from Japan, in our opinion, are
23 the major reason for the surge since the TRB order was
24 revoked; thank you.

25 MR. JAFFE: That concludes the direct

1 presentation of the ball bearing panel. It will be
2 followed by a separate panel for tapered roller
3 bearings, and then a final panel of purchasers; thank
4 you.

5 CHAIRMAN KOPLAN: All right, if I understand
6 correctly, we're now with the Wilmer, Cutler
7 presentation?

8 MR. GREENWALD: We are. Good afternoon, my
9 name is John Greenwald, with the law firm of Wilmer,
10 Cutler, Pickering, Hale and Door. I'm speaking today
11 on behalf of the Chinese respondents in this case.

12 I have with me, Mr. Hao Wei, who is
13 Secretary General of the Chamber of Commerce
14 responsible for this area in China, as well as, among
15 others, two industry representatives, Mr. Mark Liu of
16 CYB International, which is Tantai CMC's sales office;
17 and Mr. Edgar Ding, sitting next to me, who is
18 Chairman of the Board of TSB Bearings Group.

19 They are ready and, in fact, they are even
20 anxious to answer your questions. But they've asked
21 me to spend a couple of minutes giving you an overview
22 of the Chinese position.

23 I did something today that I've not done in
24 past presentations. That is to circulate to you an
25 outline of remarks. The reason I did that was, I

1 wanted to show that each point we are going to make is
2 backed up by proof in the record. I submit that that
3 stands in very sharp contrast with the assertions,
4 unsupported by proof of any sort, that you heard today
5 on behalf of Timken.

6 Let me briefly begin with the current
7 situation. On this record, I think it is impossible
8 to assert that subject imports are a significant part
9 of U.S. demand; and this is true, despite the fact
10 that the dumping margins found by Commerce are at or
11 near zero.

12 It is true, both absolutely and in relative
13 terms, if you look at import trends, I ask you to
14 compare non-subject with subject imports, in terms of
15 changes over the review.

16 It is true, in terms of market share, the
17 data are confidential so I can't speak to them, but I
18 ask you to look at market share trends, both of
19 subject and non-subject imports.

20 It is true at specific accounts. You have a
21 wealth of information by purchasers, and I challenge
22 you to find a single instance of lost sales; and then
23 with regard to price suppression, of price
24 suppression. In fact, the pricing data you have
25 before you is so unambiguous, that the Petitioners

1 this morning should be embarrassed to say that their
2 prices had, in any way, in any shape, or in any form,
3 been influenced by the prices of imports from China.

4 In fact, the domestic industry is doing
5 remarkably well. It is true that when you look at the
6 indicia of performance, you will see some things do go
7 down. But I submit to you, that is by design. There
8 has been a major and deliberate restructuring of the
9 U.S. industry, designed and effective in reducing U.S.
10 capacity of unprofitable lines. That point was
11 confirmed by the testimony this morning.

12 At the same time as the U.S. industry has
13 cut back on its own inefficient plants, it has been
14 expanding and expanding at a very rapid pace overseas.

15 So to the extent you find in the data any
16 indicia that you would normally consider injurious, in
17 fact, in the context of a Timken, which has
18 transformed itself over the past five years into a
19 global enterprise, please remember that the declines
20 in those indicia are by design. In fact, the design
21 began in 1999, and it is discussed in great detail in
22 successive Timken annual reports.

23 Our last point on the current condition of
24 the industry has to do with the context in which you
25 should be looking at the data. Timken has, again, by

1 design, transformed itself into a global enterprise.
2 The U.S. part is a part of that global enterprise.

3 The only way -- and I believe this is
4 actually consistent with the economic testimony you
5 heard today -- the only way to assess the results is
6 in the context of Timken's overall global performance.
7 It is a condition of competition, if you will, and
8 those have been nothing short of spectacular.

9 In the 2005 annual report, Timken reports
10 that for each of the last five years, its return to
11 shareholders has been 19 percent, on average, compared
12 to a five percent return for the SMP 500. I think
13 I've got that right.

14 Finally, let me go in assessing where are
15 now, to the overlap of competition. To say that it is
16 minimum is overstatement. This is a point on which I
17 thought that this morning's testimony, especially by
18 Mr. Griffith, was frankly misleading.

19 What you heard, I believe, on a question
20 from Commissioner Aranoff was, "What do you say about
21 our assertion that imports from China compete with
22 third country imports?" The answer you got from them
23 was, "Well, we make an awful lot of standard
24 bearings," as if standard bearings and low-end
25 bearings are the same thing.

1 Earlier in that testimony, Mr. Griffith put
2 up in front of you two standard bearings. One was his
3 own company's; the other was an import, I believe,
4 from China.

5 He talked about the difference in the
6 quality, which I assume goes to the difference in the
7 precision of engineering, as well as the steel, and
8 said one lasts for five years -- or, I'm sorry, five
9 times the life expectancy of the other.

10 Those two bearings, even though both are
11 standard, are not competing with one another. To
12 prove this hypothesis, what I would urge you all to do
13 after this hearing is go back and look at the pricing
14 data that you have from China, and from the U.S., to
15 distributors on each of the products for which you
16 have collected information. Those two are standard
17 bearings.

18 I defy you to find any indication from those
19 pricing data that there is even minimum competition
20 between the subject imports and domestic production.

21 Now let's turn to what happens when the
22 order is revoked. Here again, we turn to an area
23 where to say that the testimony this morning was
24 misleading is an under-statement.

25 First, regarding the condition of the

1 industry, there was an implication that things might
2 be getting worse. Well, if you look at Timken's April
3 27th earnings projected for 2006, they are projecting
4 an improvement over 2005. That is, they are
5 projecting a new record. So at least the future, as
6 Timken foresees it, is extraordinarily robust.

7 Next, they say that there would be a
8 significant increase in imports from China, if the
9 order were revoked. For that, there were some charts
10 up on screen that showed a line going up. It was, in
11 fact, a chart of exports from China.

12 You know, the one thing above all that
13 surprised me about that chart was, never once was
14 there a mention of Timken's exports from China. Let
15 me put that in perspective.

16 According to my friends from the Chamber of
17 Commerce, Timken is the largest Chinese producer, and
18 is the largest exporter of bearings from China. So
19 when Timken says, "Look at this projection; look at
20 these lines; there will be a very large increase in
21 subject imports," you have to bear in mind that they
22 are, to a significant degree, as cause.

23 It's a little bit like the story of the
24 young man that kills his parents, and then asks for
25 leniency from the Court, because he's an orphan.

1 (Laughter.)

2 Regarding pricing, I submit to you that
3 there is no evidence in this record that the Chinese
4 have ever influenced a single U.S. price. I heard
5 testimony about the worst two words in business, the
6 China price. The record simply disproves it.

7 Have you, in any part of this record, an
8 allegation that has even been looked at seriously of
9 price suppression related to imports from China? I
10 think the answer to that is no.

11 Let me lastly address some of the points
12 that Timken has made in arguing for a continuation of
13 the order. They have stated that the company has
14 "closed facilities, laid off workers, and has
15 experienced significant under-utilization of certain
16 of its facilities" because of subject imports.

17 Well, they did not say because of subject
18 imports; that's clearly the implication. In fact,
19 what has been going on is a story of restructuring,
20 where they've closed U.S. plants deliberately and
21 taken production offshore; and to suggest that it is
22 in any way related to subject imports is misleading.

23 Second, they claim that Chinese production
24 is now "more interchangeable" with subject imports
25 than was the case in 2000. That, too, is false. The

1 way that part of the argument is being made is to
2 confuse -- and again, this is a critical point --
3 standard bearings with low-cost bearings, and argue
4 that because Timken makes its standard bearings in the
5 United States, therefore it competes with low-cost
6 bearings from China. That, too, is false.

7 Finally, Timken claims that subject imports
8 have been moderated by the order. I would ask you to
9 assess that claim in the context of the dumping
10 margins, which the Department of Commerce has found
11 for subject imports.

12 Last two points, and then I will close --
13 there were moments this morning's testimony when you
14 heard Timken say, in no uncertain terms, that its
15 competition are the large multi-nationals like SKF,
16 INA, NTN, Koyo, et cetera. In fact, they say this
17 repeatedly in their annual reports. That is not the
18 Chinese industry.

19 Second, the issues of qualification and
20 quality assurance -- you will hear today from
21 purchasers that will talk to you about the
22 qualification process, how rigorous it is; and if you
23 ask the questions, you will get answers from the
24 Chinese witnesses sitting beside me, that they have
25 yet to qualify to supply significant volumes of

1 bearings to any major U.S. account.

2 Let me close by saying that Timken's
3 transformation into this global enterprise and its
4 taking of production offshore to various low-cost
5 production centers is a major change since the last
6 sunset review. So, too, are the trends in imports and
7 market share.

8 On this record, I submit to you that there
9 is no credible basis on which to extrapolate any
10 future threat of injury or likelihood of injury on the
11 basis of evidence. It's one thing for Mr. Griffith to
12 say he was in China, and boy, he was a little afraid
13 of what he saw. That was the essence of the case
14 they're making.

15 It's another thing to look at the evidence
16 and draw the conclusion that revocation would, in any
17 way, harm the U.S. industry. That concludes the taper
18 roller bearing part of the direct testimony.

19 CHAIRMAN KOPLAN: Thank you, we now turn to
20 Crowell & Morning, as I understand.

21 MR. JAFFE: Yes, thank you, Mr. Chairman.
22 We'll begin the Purchasers' panel with the testimony
23 of Glenn Holder of the Delphi Corporation.

24 MR. HOLDER: Good afternoon. My name is
25 Glenn Holder and I am the global commodity manager of

1 purchased bearings for Delphi Corporation. Delphi
2 manufactures and purchases bearings primarily for
3 automotive applications. My testimony today is
4 directed to that side of the business that purchases
5 automotive OEM bearings from bearing companies, many
6 of which are represented in this room today.

7 Delphi buys all bearings based on quality,
8 service, price, and technology. Quality is the number
9 one factor we consider. It is standard operating
10 procedure among all automotive OEMs to require
11 comprehensive testing. It is not uncommon for an
12 automotive bearing qualification to take over one year
13 and, in some critical applications, it may take as
14 long as two-and-a-half years. Delphi, also, expects
15 all suppliers to maintain a quality level not to
16 exceed the rate of 25 parts per million rejects on all
17 products shipped. My point is, we take quality
18 seriously.

19 The second factor we demand is service.
20 Consistent, just in time supply, and technical support
21 must be reliable, local, and ready to address issues
22 quickly at our manufacturing locations. For this
23 reason, many of the people in this room have won the
24 majority of the Delphi bearing business in North
25 America, because they have local manufacturing and

1 provide quick, reliable service from North America.

2 The third and fourth factors are price and
3 technology. After quality and service requirements
4 are met, we seek the lowest fair market price. Some
5 suppliers may think price is a more important
6 consideration at Delphi. But, if a supplier is not
7 providing high-quality parts with excellent service,
8 we will not be buying from them for very long. In
9 terms of technology, we expect our supply base to
10 continually provide product enhancing suggestions to
11 our buyers.

12 Revoking the antidumping duty orders will
13 not significantly impact the way Delphi buys bearings.
14 True, if the orders are removed, Delphi will have more
15 options to consider. However, as evident from our
16 qualification procedures, changing to new suppliers
17 will not likely occur quickly. Also, as it is my job
18 to continually seek world-class quality bearings that
19 will bring the best value to Delphi, I can provide you
20 a few observations about the global market for
21 automotive OEM bearings.

22 First, mature markets like the U.S. and
23 western Europe provide stable sales for Delphi's
24 business, but the major growth area in our business is
25 the emerging economies in Asia, like China and India

1 and Eastern Europe. These emerging markets draw
2 considerable attention at Delphi and, thus, I suspect
3 most of the attention of the bearing companies.

4 Second, demand in the automotive sector is
5 highly dependent on long-term relationships that exist
6 between certain automakers and certain automotive
7 suppliers. Delphi is doing a lot to diversify our
8 business, but much of our success remains dependent on
9 our continued relationship with General Motors.

10 Third, when Delphi received the Commission's
11 questionnaires, there were lots of questions about
12 interchangeability between bearings manufactured in
13 the U.S. and those manufactured in other countries.
14 It is impossible to simply checkmark a bearing as
15 being always interchangeable or sometimes
16 interchangeable with bearings that Delphi buys. If
17 the bearings have not been made to Delphi's
18 specification, they are not interchangeable. If the
19 bearings have not been through Delphi's stringent
20 qualification process, they are not interchangeable.

21 We would like to incorporate more of off-
22 the-shelf type bearings in our designs. But due to
23 our customers' need for reduced warranty cost, less
24 vehicle maintenance, increased product life, and less
25 weight, we must design custom-specific bearings. As

1 we work with vehicle manufacturers to create
2 efficiencies by way of advanced early product design,
3 these efforts many times result in unique bearing
4 specifications. This means that interchangeability
5 between bearings is increasingly more difficult today
6 than it ever has been before. It is thus custom-
7 designed bearings that we specify and buy, which leads
8 to my last point.

9 As stated, our requirements are rigorous.
10 We compete in a global automotive market and we have
11 several manufacturing facilities worldwide. As we
12 engineer and manufacture automotive assemblies that
13 contain ball bearings at our non-U.S.A. locations, we
14 do not pay antidumping duties. If we wish to import
15 those same bearings into North America, we cannot do
16 so without paying the premium. This type of increased
17 cost further inhibits the business case to manufacture
18 certain products in North America.

19 Thank you for your time and I'm available
20 for questions.

21 MR. DEDONCKER: I am Paul Dedoncker, supply
22 base manager for Deere & Company. John Deere
23 appreciates the opportunity to provide testimony on
24 this matter, in which it has a direct and substantial
25 interest. John Deere is a leading global manufacturer

1 of agricultural, construction, forestry, commercial
2 and grounds care equipment. John Deere believes that
3 bearing imports from the subject countries will not,
4 if the antidumping orders are revoked, have a negative
5 impact on U.S. bearing manufacturers.

6 The global bearing markets have changed
7 dramatically in recent years. Over the past few
8 years, demand for ball and tapered roller bearings has
9 been high, both in the U.S. and globally. As a
10 result, U.S. manufacturers of ball and tapered roller
11 bearings have not been able to keep pace with demand
12 and has placed customers, such as John Deere, on
13 allocation.

14 As early as 2003, John Deere was asked by
15 certain U.S. manufacturers to seek out, test, approve,
16 and resource to new manufacturers certain types and
17 sizes of bearings. The explanation was that
18 manufacturing was being discontinued domestically
19 and/or moved offshore. In 2004 and 2005, John Deere
20 experienced critical availability issues as total U.S.
21 demand for bearings became significantly more than the
22 U.S. manufacturers were able to produce and supply.
23 John Deere was put on allocation by our major U.S.
24 suppliers, which forced us to find alternative sources
25 of supply to keep our operations running. The

1 situation impacted John Deere, both directly in its
2 factories and its dealerships, and indirectly at a
3 number of our first and second tier suppliers. John
4 Deere remains on allocations for selected bearings
5 today. To Deere's knowledge, little or no production
6 capacity has been added in the U.S. to meet this
7 increased demand.

8 Bearings purchased by John Deere, including
9 those manufactured outside the United States, are
10 customized to fit our specific applications and are
11 not usually interchangeable with other bearings. When
12 U.S. manufacturers ceased productions of these parts,
13 John Deere was forced to seek out foreign
14 manufacturers to fill our order requirements. Foreign
15 manufacturers have been reluctant to enter the market
16 and several bearing types required by John Deere, due
17 to the threat or reality of antidumping duties here in
18 the U.S.

19 In markets with limited capacities, the risk
20 of relying on any single supplier of bearing products
21 required in our manufacturing operations are
22 unacceptable. The antidumping orders on bearings
23 interfere with the ability of John Deere to obtain
24 parts that are necessary for John Deere equipment,
25 parts that are often no longer manufactured in the

1 U.S. Thus, the antidumping orders have the impact of
2 positively benefitting a small segment of the U.S.
3 bearing industry.

4 John Deere is a global consumer of bearings
5 and needs manufacturers, who are able to compete
6 effectively and efficiently around the world. John
7 Deere's global competitors are from Japan, Korea,
8 India, China, Eastern Europe, and Russia, who are
9 buying bearings at a global market price, not a U.S.
10 price buoyed up by antidumping orders. John Deere's
11 U.S. manufacturers of vehicles, machines, and
12 implements are disadvantaged relative to foreign
13 competitors due to the antidumping orders.

14 While cost is important to Deere, other
15 factors are far more important than cost and decisions
16 to select suppliers of bearings. These other factors
17 include, but are not limited, to quality of the
18 product, and delivery and reliability from the
19 supplier. John Deere imposes rigorous testing and
20 certification requirements before a bearing product or
21 manufacturer can be approved. When Deere changes
22 suppliers, a decision is based on at least five
23 criteria, cost just being one of those. An approval
24 process for bearing is print reviews, inspections, lab
25 tests, field tests, to determine performance and

1 predict the reliability of a candidate bearing. Our
2 candidate part must test equal to or better than the
3 base line part we are looking at. This process
4 typically takes one to three years to complete.

5 In conclusion, John Deere wishes to thank
6 the ITC for providing the opportunity to be heard on
7 this important matter, and I'm happy to respond to any
8 of your questions. Thank you.

9 MR. HORACK: Good afternoon. My name is
10 Greg Horack. I've been a buyer for Caterpillar, Inc.
11 for eight years, with support responsibility of Cat's
12 bearing purchases since 2001. Today, I'm responsible
13 for managing the purchases of all bearings for
14 Caterpillar's global operations. I will briefly
15 review Cat's role in the ball bearing market and
16 explain the major changes that we have seen in the
17 U.S. ball bearing market in recent years.

18 As you may know, Cat is the world's leading
19 manufacturer of construction and mining equipment,
20 diesel and natural gas engines, and industrial gas
21 turbines. Cat purchases millions of dollars of ball
22 bearings every year from a number of major producers.
23 Cat uses those ball bearings in the manufacture of its
24 equipment. Thus, Cat's demand for ball bearings is
25 driven by consumer's demand products at manufacturers.

1 I work with Cat product and design groups in
2 the bearing supply area and manage Cat purchases of
3 bearings. Cat imposes stringent design and quality
4 standards on its equipment that it manufactures.
5 These standards extend to its suppliers, including the
6 ball bearing suppliers. Consequently, Cat bases its
7 purchasing decisions for ball bearings and all other
8 inputs primarily on quality and also considers
9 reliable delivery, technical support, development, and
10 management issues.

11 Currently, one of Cat's biggest purchasing
12 problems with ball bearings is its inability to
13 purchase ball bearings from suppliers that can meet
14 its delivery requirements. While Cat's demand for
15 ball bearings has grown in recent years and,
16 importantly, is expected to continue to grow, the
17 supply cannot keep pace. Suppliers have asked for
18 increased lead times. Prices have been raised
19 continuously since 2000 and have increased
20 dramatically since 2004. Such conditions, which exist
21 today, have placed Cat in a untenable position of not
22 being able to produce its own new products or service
23 existing Caterpillar customers.

24 Despite facing supply difficulties, Cat
25 cannot easily switch suppliers once it has entered

1 into agreements with specific suppliers to meet its
2 stringent design, certification, and quality
3 requirements, and would lose significant time and
4 resources were it to do so. In fact, if Cat were able
5 to switch suppliers easily and wanted to purchase ball
6 bearings based on price instead of quality, it would
7 have begun purchasing ball bearings from non-subject
8 producers years ago.

9 Let me also say a few words about the
10 conditions of the U.S. ball bearing industry. First,
11 I do not view the industry as a U.S. industry and a
12 foreign producer industry. To me, there's just one
13 industry, the ball bearing industry. And the changes
14 or developments anywhere in the world relate to and
15 influenced the industry as a whole. Cat purchases
16 ball bearings from both major U.S. producers and major
17 foreign producers and for quality and supplier
18 certification reasons I've discussed, will continue to
19 do so whether the antidumping order remains in place
20 or not.

21 Second, there has been a trend of
22 consolidation among producers in the industry, which
23 now has a few dominant producers. As a close observer
24 of the industry, I expect this consolidation trend to
25 continue. Cat welcomes this consolidation trend, as

1 it is making the industry more financially secure,
2 providing more stable suppliers for Cat.

3 The ball bearing industry is, also, now
4 truly globalized. Nearly all ball bearing suppliers I
5 am familiar with either have already acquired or
6 formed joint ventures with foreign producers or have
7 established foreign production facilities of their
8 own. They're doing so because demand for ball
9 bearings around the world is growing. They need to
10 position themselves to take advantage of this increase
11 in global demand. Bearing consumers, such as Cat, are
12 similarly expanding overseas. Although Cat focuses
13 primarily on quality in making its purchasing
14 decisions, it's also concerned with logistics, which
15 is the ability of a supplier to deliver what we want,
16 where we want, and when we want it. A localized
17 supplier may be better able to accomplish that task.
18 In short, the major ball bearing producers, including
19 those that are U.S. owned, have reorganized and
20 allocated their production among the major markets
21 around the world, in order to take advantage of the
22 growth opportunities in different regions.

23 Based on the changes in the ball bearing
24 market, the strength of the U.S. market, Caterpillar's
25 stringent supplier quality and design requirements,

1 and the U.S. producers' inability to meet current
2 demand, Caterpillar supports revocation of the
3 antidumping orders on ball bearings.

4 Thank you for your time this afternoon. I'd
5 be happy to answer your questions.

6 MS. TEFFT: Ladies and gentlemen, my name is
7 Linda Tefft and I'm the manager of global commodities
8 for bearings at Eaton Corporation, truck components
9 division or TCO. Eaton TCO is a global manufacturer
10 of heavy, light, medium duty transmissions and
11 clutches. I have held my current position for three
12 years and I've worked for Eaton Corporation for the
13 past 10 years. I appreciate the Commission's time in
14 allowing me to discuss Eaton's views on the United
15 States bearing market.

16 Eaton TCO uses a variety of bearing types in
17 all of our original assemblies, service, and after-
18 market replacement parts. I would like to begin by
19 saying that Eaton sources with all of the big six
20 bearing suppliers, including Timken. I am here today
21 to state that Eaton supports the revocation of the
22 antidumping orders and also to state why revocation
23 will not change our purchasing and sourcing practices.

24 Eaton carefully selects its bearing
25 suppliers based on specific bearing needs in our

1 transmissions and clutches. There are four important
2 purchasing criteria for Eaton TCO: high levels of
3 quality, engineering support, on-time delivery, and
4 the need for a long validation process. From a
5 quality perspective, Eaton would not source a bearing
6 from a supplier, who cannot meet our high levels of
7 quality. Saving a few dollars in this area would
8 surely risk our good name in the industry, if our
9 quality expectations slipped.

10 Eaton TCO, also, has one of the highest
11 warranty offerings in the industry: seven years and
12 750,000 miles. By lowering our quality standards, we
13 would increase our exposure to warranty claims. In
14 addition, failures that idle a truck shut down
15 productive assets of our customers when covered under
16 warranty -- even when covered under warranty. Thus,
17 lowering quality will only disrupt our customer's
18 businesses. This would undermine our efforts at
19 providing competitive, high-quality products. Eaton
20 disagrees with the notion that bearings are purchased
21 solely or even principally on cost.

22 On the subject of engineering, technical
23 support, Eaton TCO's expectation is that every company
24 we purchase from has regular interactions with each of
25 our engineering groups, actively engaging in new

1 design, implementation, maintaining, and continuing
2 improving the current production process. Although
3 Timken has always had highly regarded engineering
4 capabilities, it has not pursued an active
5 relationship with our engineering staff at Eaton TFCO
6 for the past three years.

7 On-time delivery is expected from all of our
8 suppliers. Supplier commitment to on-time delivery
9 and maintaining capacity to meet this commitment is
10 necessary to help Eaton achieve our customers' high
11 demands. Eaton TCO has experienced problems in this
12 area with Timken in the past. For example, on
13 December 1, 2004, during a meeting with Timken's
14 management, Eaton TCO was asked by Timken to
15 immediately resource 39 bearing parts for our Brazil
16 facility, which we had been purchasing from Timken to
17 another supplier. Timken explained it was due to
18 inefficient capacity in both their United States and
19 Brazil manufacturing facilities.

20 In January of 2005, Timken was unable to
21 support two of our heavy duty bearings due to capacity
22 issues in its facilities. Timken placed Eaton TCO on
23 allocation, which caused us \$2.4 million in lost
24 sales, as well as lost customers. Despite our efforts
25 to replace the bearings, Timken failed to supply

1 efficiently. There were added costs and difficulties,
2 as Eaton was forced to source bearings from foreign
3 suppliers.

4 Lastly, because of our rigorous
5 qualification requirements, Eaton TCO has a long
6 validation time for any changes to its suppliers of
7 bearings, normally anywhere from one-and-a-half to two
8 years for full validation. Since our qualification
9 requirements are significant for both bearing supplier
10 and Eaton, it is not a quick process to change to a
11 new supplier and we value the relationships that we
12 have with all of our current suppliers.

13 In conclusion, revocation of the antidumping
14 orders will not change Eaton TCO's purchasing
15 practices for bearings or the stringent qualification
16 process we adhere to. The antidumping duties have not
17 and will not affect Eaton sourcing decisions.
18 Therefore, the revocation will not have an effect on
19 Eaton's purchases from Timken or any other supplier.

20 Thank you for this opportunity to address
21 these important issues.

22 MS. MATTHEWS: My name is Catharine
23 Matthews. I am the commercial manager of SMW
24 Automotive, a U.S. manufacturer, based in Birmingham,
25 Michigan since 2000 and am responsible for sales. SMW

1 manufactures automotive chassis and suspension parts
2 and front and rear wheel assemblies. We refer to
3 these as safety critical automotive components. SMW
4 has been in business since 1996 and employs close to
5 400 people. We have two plants located in Warren,
6 Michigan; two in Port Huron Michigan; one in Batavia,
7 New York, and facilities in Brazil, France, China, and
8 Canada. Despite the selling prices of our products
9 having declined by 25 percent over the past five years
10 and our material costs have an increase by 30 percent
11 during the same time period, SMW has, nevertheless,
12 doubled its sales in that five-year period. This
13 success has been due to our ability to design and
14 manufacture at the lowest possible costs.

15 SMW services all worldwide automotive
16 markets. Our principle customers are automotive OEMs,
17 including GM, Ford, Nissan, BMW, Renault, and Peugeot.
18 Ball bearings are a key component in many of our
19 products, including our automotive wheel corner
20 modules. The bearings are actually attached to the
21 knuckle to form an assembly that serves as the main
22 interface between the wheel and suspension system.
23 The ball bearings that are used in this application
24 are custom made and are specific for each different
25 vehicle. Our sourcing decisions for these bearings

1 are based on quality, design, price, warranty, and
2 availability. Without question, quality is the most
3 important criteria.

4 Our customers generally specify what ball
5 bearing suppliers to use. In June 2004, SMW received
6 a contract from GM for the corner modules on one of
7 its lower volume vehicles. Because the small volume
8 could not support development and production of a new
9 customer ball bearing, GM designed the corner module
10 to accommodate a ball bearing that was already being
11 used on its opal vector model in Europe. The bearing
12 was manufactured in Germany. However, because of the
13 antidumping order in the United States, the German
14 manufacturer refuse to sell us the bearing in the U.S.
15 Accordingly, SMW had no choice but to set up a new
16 plant in Canada just to produce this corner module
17 assembly, where we imported the customer specified
18 bearing from Germany. This, in spite of the fact that
19 there was available capacity in our existing U.S.
20 plants to accommodate this new manufacturing
21 initiative.

22 Having to locate the production in Canada
23 utilized excessive and unnecessary capital and
24 duplicated existing overhead. The Canadian workers
25 now producing this item in Canada would have been

1 American workers, if we had been able to import the
2 German-made ball bearings. The additional Canadian
3 facility also siphoned off both financial and human
4 resources that we would have preferred to put into our
5 U.S. operations.

6 If the antidumping orders on ball bearings
7 from Germany were revoked, we would most likely
8 relocate this Canadian production to the U.S., where
9 we could consolidate our manufacturer of the various
10 corner module programs. Our business and the bearing
11 business are both completely global in nature,
12 providing an unnecessary trade barrier in the United
13 States that prevents U.S. manufacturers of downstream
14 products from obtaining ball bearings from wherever
15 they can be most efficiently and effectively obtained
16 is counterproductive and raises the ultimate price
17 consumers must pay. It, also, provides an unfair
18 advantage to foreign competitors, who are able to
19 purchase the same ball bearings we need to purchase
20 without the existence of such barriers. I do not
21 believe that elimination of these antidumping orders
22 will cause any injury to U.S. bearing manufacturers,
23 virtually all of whom, Timken included, are global
24 suppliers with production facilities all over the
25 world. All that is needed for them and for us is a

1 level playing field.

2 Thank you for your attention.

3 MR. BROZ: Good afternoon. My name is Jim
4 Broz. I am presently employed as purchasing manager
5 for Milltronics Manufacturing Company, located in
6 Macony, Minnesota. My duties include the procurement
7 of materials and components needed to build CNC
8 milling machines produced by the company. CNC stands
9 for computer numeric control, user-based machine tools
10 operated by a microprocessor. I've been with the
11 company since 1994.

12 Milltronics is a privately-held
13 manufacturing entity that has been in business since
14 1973. We currently employ 115 people in our Macony
15 location. Milltronics produces CNC vertical mills,
16 horizontal mills, and lays for the machine-tool
17 industry. The machines are used in a variety of
18 applications, from small job shops, to large
19 production plants, such as Boeing in Seattle. Within
20 these plants, our equipment can be used to machine in
21 all shapes and sizes in anything from wood, plastic,
22 graphite, aluminum, and steel.

23 Ball bearings are an integral component of
24 our equipment. The main applications would be ball
25 screw support bearings and spindle bearings. We,

1 also, utilize angular contact ball bearings. Some of
2 the bearings we purchase are standard, others are
3 custom. The bearings are purchased directly from
4 manufacturers and also through local distribution for
5 items of less usage. We, also, have preferred sources
6 for both manufacturers and distributors. Factors in
7 selecting these suppliers include quality, delivery,
8 price, stocking levels, probably in that order.

9 This antidumping order makes it very
10 difficult to manufacture certain products here in the
11 U.S. The best example I have is with spindle ball
12 bearings used to make spindles. In the past,
13 Milltronics manufactured the spindles in our plant in
14 Minnesota. Some years ago, as Milltronics grew and
15 became more international, we discovered the savings
16 that could be had by purchasing complete spindle
17 assemblies from Taiwan. It was the combination of
18 lower labor costs and the bearing price that
19 ultimately caused us to export our manufacturing
20 operation to Taiwan. In this case, the antidumping
21 orders prevent us from pursuing a U.S. manufacturing
22 option.

23 My opinion is pretty clear on this subject.
24 I think the revocation of these antidumping orders can
25 only help Milltronics and other U.S. manufacturers

1 like it. The major advantage I see is that it will
2 allow us to buy products from where they are most
3 efficiently produced. We're all living in a world
4 economy and laws like this are very dated, in my view.
5 In the machine tool industry, Milltronics is forced to
6 compete with companies from all over the world without
7 any protection and we manage to do so pretty well. We
8 face the same competition from Europe, Asia, and India
9 that the bearing industry faces. In the end, these
10 orders potentially benefit only one company here in
11 the U.S. and hurt many others.

12 I, also, do not believe that the elimination
13 of these antidumping orders will adversely affect U.S.
14 ball bearing manufacturers. These companies, who have
15 facilities here in the U.S., produce most of the
16 customized ball bearings required by U.S. original
17 equipment manufacturers. Those that have foreign
18 plants in the countries covered by these orders cater
19 principally to foreign markets and, as a general rule,
20 do not normally produce in those countries the same
21 ball bearing types they produce in the U.S. While
22 they may be limited additional availability of some
23 foreign-made types to us and other U.S. manufacturers
24 if the dumping orders were revoked, this should only
25 result in achieving greater efficiencies in the

1 industries served by the ball bearing industry and not
2 injury to American ball bearing manufacturers.

3 Thank you for your attention. I'm available
4 to answer any questions you may have.

5 MR. JAFFE: That concludes the presentation
6 of those parties, who oppose the continuation of the
7 orders.

8 CHAIRMAN KOPLAN: Thank you, very much.
9 Your testimony is very much appreciated and we will
10 begin the questioning with Commissioner Lane.

11 COMMISSIONER LANE: Good afternoon.
12 Everybody in their room is to be commended for their
13 stamina and we'll see how long we can all last here.
14 Let me turn first to -- someone said that we should
15 not consider the surge in imports from Japan when the
16 orders were lifted on Japanese tapered rolling
17 bearings. Why is that not evidence of ability and
18 willingness to reenter the U.S. market and what
19 conditions of competition have changed or are
20 different for the current countries and bearings under
21 review?

22 MR. PEACOCK: Commissioner Lane, this is Tom
23 Peacock from Koyo. Our initial comment to the surge
24 of imports from Japan are based on our own research
25 defending the sunset order from 2000. It's clearly

1 evident and it's also public knowledge that Timken was
2 purchasing forgings from Japan. And while they
3 mention the surge, they don't mention that a great
4 deal of the surge is from their imports of TRB parts.
5 So, I think when you look at the import surge of
6 tapered rolling bearings, it has to be put into
7 context with the Petitioner's own imports of that
8 product.

9 COMMISSIONER LANE: Okay, thank you. Mr.
10 Greenwald, in your remarks, you referred to Timken's
11 glowing earnings projections. Were those projections
12 limited to Timken's U.S. production operations?

13 MR. GREENWALD: No. They don't break it
14 out. On the other hand, it is a context, in which you
15 have to consider the prospect for the U.S. operations.
16 If Timken globally has decided to restructure and
17 Timken is projecting record earnings for the
18 reconstructed company, then it is in that context that
19 you have to assess what is and what is not going on in
20 the United States. What I would submit to you is
21 Timken's ups and downs in earnings are much more -- in
22 the United States is much more a function of where it
23 chooses to locate its plants than anywhere else.

24 MR. KLETT: Commissioner Lane, this is Dan
25 Klett. Timken, on the other hand, does break out in

1 its financial its automotive, industrial, and steel
2 groups, and the automotive and industrial tend to be
3 bearings related. And at least with respect to the
4 industrial group, which is heavily -- which would be
5 where the ball bearings would be, the bore unit, that
6 sector, in particular, its outlook was very positive.

7 COMMISSIONER LANE: Okay, thank you. Now, I
8 have some questions for Caterpillar and other
9 purchases. I believe that several purchasers strongly
10 suggested that the need for on-time delivery and
11 qualified product ties you to the domestic producers.
12 So, please explain to me, considering your dependence
13 on domestic producers, what will the likely outcome be
14 with regard to your purchases, if the orders are
15 revoked. Would you expect better terms or lower
16 prices? And maybe it would help if you raise your
17 hand before you answer, so I can find you.

18 MR. HORACK: The Caterpillar response to the
19 question would be, we don't see a whole lot of change
20 happening if the order is revoked. Lead times are not
21 really dependent on orders by governing bodies. Lead
22 times are controlled by the availability of raw
23 materials, manufactured components, and so on and so
24 forth.

25 COMMISSIONER LANE: Okay. Does anyone else

1 care to respond to that? Yes, sir -- or yes, ma'am.

2 MS. TEFFT: Linda Tefft from Eaton
3 Corporation. I just want to state that the majority
4 of our ball bearings come from foreign sources now.
5 Timken does not compete in our markets at all. So, we
6 would not be changing much, unless there was capacity
7 and open competition here domestically to source
8 bearings.

9 COMMISSIONER LANE: Okay. I saw another
10 hand back there.

11 MR. DEDONCKER: Yes. Paul Dedoncker from
12 Deere & Company. We really don't want to change
13 sources. The switching costs are far too expensive,
14 time and resources. So, we prefer to stay with our
15 current supply base.

16 COMMISSIONER LANE: Okay, thank you. Yes,
17 sir?

18 MR. HOLDER: Glenn Holder from Delphi.
19 Delphi is pretty much in the same position as Deere.
20 We do not want to change our sources, but we do
21 expect, as I stated in my testimony, on-time
22 deliveries and application support, and this is
23 typically someone that is local. So, I wouldn't
24 expect this revoking antidumping duties to affect us
25 at all.

1 COMMISSIONER LANE: Okay, thank you.

2 Anybody else care to respond?

3 (No response.)

4 COMMISSIONER LANE: Okay. Now, let's turn
5 to something that we were discussing this morning,
6 which is custom and standard bearings. The terms are
7 widely used in the industry and in the record in this
8 proceeding. Is there a commonly accepted definition
9 of these terms in the industry and are there obvious
10 and significant differences between such products?
11 And is the production process significantly different
12 for standard versus customized bearings and if so, is
13 it common that custom bearings would require unique
14 and separate equipment or processing time that would
15 add significant incremental costs specifically for
16 production of a customized bearing design?

17 MR. HOLDER: Glenn Holder from Delphi.

18 COMMISSIONER LANE: Yes, sir.

19 MR. HOLDER: We have the same -- or we do
20 not have a definition, as you're asking for. But, I
21 do know that in terms of our designs, we do a lot of
22 interaction with the bearing companies and our
23 customer through a series of meetings and design
24 reviews to come up with a custom design. Otherwise,
25 we would just be simply buying from a catalog. But,

1 we require a lot of interaction and we do have very
2 custom-specific bearings in our bearing deck at
3 Delphi.

4 COMMISSIONER LANE: Thank you.

5 MR. FULLERTON: Graham Fullerton from Koyo.
6 Answering mainly on behalf of automotive section, we
7 make a lot of wheel bearings. Wheel bearings, we call
8 hub units and there isn't one single hub unit that
9 goes across all platforms of cars. So, every single
10 car has a different type of hub unit. It's custom
11 made. It usually takes about two years to develop
12 with bench testing, vehicle testing by the
13 manufacturer, the OEM. And there are no two hub units
14 alike. These are genuine, highly sophisticated
15 customized bearings.

16 COMMISSIONER LANE: Okay. Ms. Tefft, I saw
17 that you had your hand up.

18 MS. TEFFT: Thank you. I just wanted to
19 state from an Eaton perspective that we don't really
20 distinguish between custom and standard bearings.
21 Each bearing that we purchase from any new supplier
22 has the same qualification period that any other
23 bearing would have in the industry. And one of the
24 things that we depend on heavily is the engineering
25 support of our suppliers. We are not bearing

1 manufacturers by any means and we rely heavily on the
2 engineering support from those suppliers that we deal
3 with.

4 COMMISSIONER LANE: Yes, sir, back there?

5 MR. HORACK: Greg Horack with Caterpillar.
6 I would like to concur with the comments that have
7 been made by the other purchasers in the room, as well
8 as to your point relative to the appearance of the
9 product. Setting it on a table, you can't tell the
10 difference. But, a trained metallurgist using the
11 right tools can tell you the difference.

12 COMMISSIONER LANE: Okay. Mr. Rouse?

13 MR. ROUSE: Yes, Mr. Rouse speaking. NSK is
14 the number one automotive ball bearing supplier in the
15 world and we know the automotive business. And I
16 think from the testimony this morning, it would lead
17 you to believe that an automotive supplier of bearings
18 can try to design in a standard product and the
19 majority of the time, that would be possible. NSK
20 would like to do that, because standardization makes
21 us more efficient in engineering and in production.
22 But the reality is, our customers have very specific
23 needs based on the application, the speeds, the loads,
24 the temperatures, the environment, et cetera. And I'm
25 sure you heard them describe the amount of testing

1 required to validate a part number for an application.

2 In the past five years, NSK supplied over
3 6,000 different part numbers for our automotive
4 business here in the U.S. Over 98-1/2 percent of
5 those part numbers were custom to the application.
6 Less than two percent were supplied to more than one
7 customer application. That shows the level of
8 customization. And over 99 percent of the value, in
9 other words, there were some part numbers, but those
10 were small application that maybe weren't as rigorous,
11 but over 99 percent of the value, what we supplied the
12 last five years, was custom product. And that
13 supports --

14 COMMISSIONER LANE: Let me just ask one
15 question.

16 MR. ROUSE: Yes.

17 COMMISSIONER LANE: After a period of time,
18 do those customized 98 percent become standard?

19 MR. ROUSE: No, they never change. We
20 never change those part numbers to standard part
21 numbers that we put in our catalog. You will never
22 find those part numbers in our catalog.

23 COMMISSIONER LANE: Okay. Just one more
24 question. So, the 98 percent of those that are
25 customized that you do for specific customers, those

1 cannot then be used by other customers?

2 MR. ROUSE: Correct.

3 COMMISSIONER LANE: Okay, thank you.

4 MR. ROUSE: Correct. In fact, if I take a
5 very similar part, there may be 100 variations. And
6 if I take one of the part numbers that's approved for
7 an application and tried to put in one of the other 99
8 part numbers, high likelihood is it's going to fail in
9 that application, in that rigorous test. Thank you.

10 CHAIRMAN KOPLAN: Thank you. Commissioner
11 Pearson?

12 COMMISSIONER PEARSON: Thank you, Mr.
13 Chairman. Allow me to salute the resiliency of this
14 panel. I'd also like to note that you are the largest
15 panel that I've ever had in front of me since I've
16 been a Commissioner and I appreciate the diversity of
17 interest that are represented here, because you come
18 from a number of different perspectives and your
19 testimony has been very helpful so far. And let me
20 hope that we don't just confuse things from here on.

21 I'd also like to offer greetings to my
22 fellow Minnesotan, Mr. Broz. My question for you, to
23 start things off, is has the ice come off Lake
24 Wakonia?

25 (Laughter.)

1 MR. BROZ: A couple of weeks ago.

2 COMMISSIONER PEARSON: Okay, good, because
3 the fishing opener must be in about 10 days or so.

4 MR. BROZ: Yes, it's about two weeks.

5 COMMISSIONER PEARSON: Okay, okay, good.
6 It's very hard on the bearings and outboard engines,
7 if you take them out on icy lakes.

8 With the first panel, we had some discussion
9 of price relationships. The domestic industry clearly
10 believes that generally speaking, bearing prices in
11 the United States are higher than in other countries.
12 How do you see it? Do you share that view? Mr.
13 Bergqvist?

14 MR. BERGQVIST: Bo Bergqvist. I don't think
15 you can ask the question that way, because that
16 assumes that the bearing market is one homogenous
17 market in this country and it's not. The big
18 difference is between the after market and the OEM.
19 If we look at our antidumping filing, that
20 information, and look at different segments, and if we
21 would like run analysis with or without searing, we
22 get very different results. That indicates that on
23 the after market, it might be proved that the price
24 levels in the U.S. are higher than other places in the
25 world. On the OEM market, it's extremely competitive.

1 On the distribution market, you could also say that
2 this country has a fairly expensive distribution
3 system, because it's a big country and widely spread
4 customers. So, that could be another explanation.
5 Thank you.

6 COMMISSIONER PEARSON: Would anyone else
7 care to offer an observation of cost increase? In
8 the back?

9 MR. ANDERSON: Way from the back, this is
10 Chuck Anderson with Capital Trade, whose spent quite a
11 bit of his career during dumping margins on bearings,
12 so maybe I can address this issue.

13 COMMISSIONER PEARSON: Please.

14 MR. ANDERSON: Essentially, what you've seen
15 in the last two or three years is a very wide change
16 in exchange rates, especially with the European
17 exchange rates and the U.S. exchange rates. And if
18 anybody, who tracks the dumping margins, they'll
19 notice that the dumping margins in the most recent
20 review are, in fact, a little higher than they have
21 been. That's, in part, because of some very clever
22 changes in model matching, as you've heard, but also
23 because of exchange rate changes. So, I think if
24 you're looking at European or Japan prices versus U.S.
25 prices, I think it's hard to draw the conclusion that

1 the prices in Japan or Europe are, in fact, higher
2 than they are in the United States, given what's
3 happened to the dumping margins in the past review and
4 given what has happened to the exchange rates.

5 COMMISSIONER PEARSON: Okay. Some of you
6 have indicated that the bearing industry has
7 restructured itself and become more globalized in the
8 scope of its operations. Has that process of
9 globalization tended to make the antidumping more or
10 less relevant to your businesses? And the reason I'm
11 asking is if globalization goes forward actively
12 enough, we know that this is a partial wall around the
13 U.S. market that leaks fairly actively. If
14 globalization goes far enough, doesn't this
15 antidumping order tend to become irrelevant to many of
16 you? Mr. Rouse?

17 MR. ROUSE: Yes, Mr. Rouse speaking. I
18 would say to some degree, it becomes more irrelevant.
19 But the reality is, if it goes away, it improves our
20 cost competitiveness. We pay a lot of money in
21 dumping duties that are related to the way the duties
22 are calculated or the prices are calculated, not based
23 on what our pricing really is. Our average price of
24 imported product is higher than our average price of
25 our domestic product, but we're still paying dumping

1 duties. That makes us somewhat uncompetitive. We,
2 also, spend millions of dollars in administering this
3 process that doesn't add value. That makes us
4 uncompetitive. So, there is an impact. It's not
5 irrelevant; it has an impact. So, I believe that
6 eliminating the dumping order will improve our
7 competitiveness, even with the globalization in the
8 marketplace.

9 COMMISSIONER PEARSON: Mr. Bergqvist?

10 MR. BERGQVIST: I can only agree to those
11 comments. And it's not only the bearing industry that
12 has globalized. Our customers have globalized, too.
13 So, therefore, with this artificial intervention in
14 the business process, that makes life very difficult.
15 So, it might protect U.S. bearing industry according
16 to some theories, but it's definitely damaging for our
17 customers, too. So, the question is, what is good for
18 the U.S. economy.

19 COMMISSIONER PEARSON: Unfortunately, the
20 question that we need to answer is not what is good
21 for the U.S. economy, but rather is there likely to be
22 a recurrence of dumping that would cause material
23 injury to the domestic producers of bearings. So, I
24 appreciate what you're saying.

25 MR. BERGQVIST: And on that question, I

1 refer to my testimony earlier, that based on what you
2 have heard, the process to resource the supplier is
3 quite cumbersome. So, I don't expect that we there
4 would be a significant recurrence.

5 COMMISSIONER PEARSON: I would observe, Mr.
6 Bergqvist, it almost sounds like you, at one time,
7 studied some economics, just by the way you positioned
8 the question.

9 MR. PEACOCK: Tom Peacock with Koyo. Part
10 of the problem with the continuation of the order is
11 the continual changes of how the order is applied and
12 specifically model match. If we cannot have a stable
13 rule to follow of how we can import and price, then it
14 makes it very difficult for when we do have to bring
15 in a low volume size overseas to quote a price and to
16 guarantee our end users supply of that particular
17 bearing. And even if it's just one bearing that is
18 affected that we can no longer supply due to some
19 change in the rules, that makes an egregious margin.
20 Our end users can't make cars, they can't make
21 combines missing one bearing. So, if they're forced
22 to go overseas for the one bearing, they might go
23 overseas for all the bearings.

24 COMMISSIONER PEARSON: Any other comments?

25 (No response.)

1 COMMISSIONER PEARSON: So, I could deduce
2 that as you see it, the evolution -- the restructuring
3 of the global bearing industry in the next few years
4 is not likely to proceed so rapidly that bearings
5 could be supplied -- all of your bearing needs could
6 be supplied from non-subject countries. There will
7 still be, at least for some bearings, a restriction
8 bringing them into the United States, if this order
9 stays in effect. Mr. Rouse?

10 MR. ROUSE: I think that it's not so much a
11 restriction, but it's based on the needs of the
12 customer. If you look at the automotive industry,
13 there's not just obviously a restructuring going on in
14 the U.S. bearing industry, but a restructuring going
15 on in the U.S. automotive industry. And if I look at
16 some of the demands that are being placed on us as
17 major suppliers to the automotive industry right now,
18 we now have two things going on, opposing impacts that
19 relate to what we've described, the supply of custom -
20 - high technology custom bearings versus standard and
21 low-tech bearings.

22 Within the auto industry right now, we can
23 see that our customers are asking -- placing more
24 demands on us, more demands for level of precision,
25 for inclusion of technology, for tire supply chains

1 and responsiveness from an engineering standpoint. As
2 the testimony from the person from Delphi indicated,
3 they are making more and more of those demands to
4 increase their competitiveness in terms of product
5 innovation and they need our capabilities locally to
6 do that.

7 On the other hand, we're getting requests
8 from automotive customers to increase our amount of
9 low-cost country sourcing for standard and low-
10 technology bearings. In some cases, we are not
11 allowed to quote domestic product. They want low-cost
12 country product, because they know it's standard
13 product. In other cases, we are told we have to reach
14 a certain level of import content, because they know
15 that's what is necessary for that level of product to
16 be competitive. And, also, in some cases, they will
17 not allocate engineering resources to approve products
18 related to domestic manufacturer, because they know
19 those are standard applications.

20 So, that similar change is taking place in
21 the automotive industry that directly relates to what
22 we're trying to demonstrate today. There's a
23 difference between custom product, which requires
24 domestic manufacturer to meet the customer needs,
25 versus those that are imported. Thank you.

1 MR. JAFFE: If I could just add to that.
2 Matthew Jaffe. Obviously, globalization is changing
3 the way these orders affect the marketplace and it
4 will continue to change. But, the orders add a
5 certain degree of business risk that is incumbent with
6 having the orders and having some situation in a place
7 in which you have to respond, but you have this
8 business risk of the antidumping duty. But at the
9 same time the globalization, I think it was the
10 example that was given by SMW Automotive, the General
11 Motors came to them with a request. The request said,
12 you must source this particular product, not with the
13 product that's available in the United States at all,
14 but a product that's available only in Germany, and
15 the German producer refused to sell because of the
16 antidumping duty. No competition between the German
17 and the United States market. So what did they have
18 to do? They had to move their production to Canada.

19 So, yes, globalization will change, but by
20 adding this particular business risk, by adding the
21 administrative costs associated it, it's still going
22 to have an impact and that impact would remove a lot
23 of that business risk that is associated with this and
24 allow them to globalize along with the rest of the
25 world industries.

1 COMMISSIONER PEARSON: Okay, thank you, Mr.
2 Jaffe. My light has turned red. Mr. Chairman, over
3 to you.

4 CHAIRMAN KOPLAN: Thank you. Commissioner
5 Aranoff?

6 COMMISSIONER ARANOFF: Thank you, Mr.
7 Chairman, and thank you to this afternoon's enormous
8 panel for being here with us. I want to start by just
9 pointing out an overall contradiction that I heard in
10 the testimony this afternoon from the ball bearing
11 panel. I got the general message that a number of the
12 producers were saying, look, it's not the big global
13 players, who are competition to Timken and other
14 domestic producers. It's China. And then we heard
15 the Chinese TRB panel come and tell us, look, the real
16 competition to Timken is the global companies, not
17 China. Anyone want to take a stab at which one is
18 true?

19 MR. GREENWALD: Ours was true for the TRB
20 sector.

21 (Laughter.)

22 COMMISSIONER ARANOFF: All right. Good try,
23 Mr. Greenwald, but I don't think that's the answer.

24 MR. JAFFE: There's more to the equation
25 than China. I think the one reason why we set out --

1 again, Matthew Jaffe -- by industry sector is so that
2 you could see the competition by industry sector. In
3 the automotive OEM sector, what you see is not
4 competition from China. What you see is the
5 nationalization of production here in the United
6 States. In the industry OEM sector, it's split. It
7 fits a more technical ball bearing. Again, you're
8 seeing rationalization of that particular custom
9 bearing manufacturing here in the United States,
10 because the customers demand it.

11 When it comes to the lower technical, again,
12 you have a bit of a market conundrum. There is non-
13 subjects, yes, some of it's China, coming into the
14 United States, but there's also those industrial, less
15 technical application customers, who are leaving the
16 United States and going to China, India, and other
17 places in the world, where it's optimum -- cost
18 optimum to manufacture.

19 And then finally, there is the after market
20 sector, again, totally different conditions of
21 competition. Brand rules in that particular sector.
22 Brand is very important. But, there are other
23 companies, who say, I don't care. I'm not going to
24 ask for a brand. I want price. And in there, it's
25 the non-subject imports that we cannot compete

1 against, not from the subject countries, not from U.S.
2 production. So, it depends.

3 MR. GREENWALD: Commissioner Aranoff, may I
4 -- on the TRB side of this equation --

5 COMMISSIONER ARANOFF: Mr. Greenwald, go
6 ahead.

7 MR. GREENWALD: -- I urge you to take into
8 consideration the testimony you heard this morning.
9 Mr. Griffith, I believe, at one point said our
10 competition is and then listed the multinationals. I
11 represented the Chinese in the Chinese ball bearing
12 case and I think when we were looking at those, that
13 it was perfectly clear that low end -- and by that, I
14 do not mean standard; I think the equation standard to
15 low end is just wrong -- but low-end imports from
16 China did compete with imports from Singapore or
17 elsewhere. There was a third country problem. They
18 did not find the Chinese qualified at any major
19 account, as a major supplier. That is certainly true
20 in the TRB sector. You just do not see the Chinese at
21 major purchasers. I refer you to the purchaser
22 questionnaire responses for proof, if you will.

23 And then, finally, again, come back to
24 Timken's own statements, not only this morning, but
25 also when you go through its annual report, it says

1 what its competition is and it's not the Chinese that
2 are supplying low-end bearings to a low-end part of
3 the market.

4 COMMISSIONER ARANOFF: Okay. I appreciate
5 those. Mr. Rutning, I know you have more to say. It
6 was a mean question to ask, in the first place. So,
7 if you want to respond to it more in your brief,
8 please do. I think I'm going to move on before I use
9 up all my time on my not very nice question.

10 Let's see, Mr. Greenwald, I'll send you or
11 your industry witnesses a more constructive question.
12 There's been -- if you take a look at our staff
13 report, you see that the unit values for shipments
14 from China to the U.S. market are generally lower than
15 for shipments from China to the home market or to
16 Europe, and I'm trying to figure out why. I think I
17 have a theory about why that could be the case with
18 respect to the Chinese home market, but I'm not so
19 sure I understand why it would be the case in Europe.

20 MR. GREENWALD: I'm going to turn this over
21 to the industry witnesses. But, we looked at that
22 very carefully. I think it is clear that there is a
23 difference in the type of bearing. When you look at
24 the placing data that you collected from some of these
25 individual bearing types, you, again, will see

1 relatively low prices. I think China's position in
2 this market is at the low end. The most price
3 sensitive, you talk about bearings that go on, I don't
4 know, the things you pull behind trucks, trailers,
5 that sort of thing. That is not a high-end
6 application. In their home market, it's very
7 different. But with that, let me turn it over to
8 perhaps Mr. Ding.

9 (Pause.)

10 MR. DING: I come from China. I'm the
11 Chairman of the Board of the TSB Bearing Group. So,
12 actually, I just want to make one clearly and why we
13 cannot go to our American OEM customer for the high-
14 end. Actually, we make different bearing than what
15 Timken makes. Timken makes the tapered bearing using
16 the case carbonized steel. The steel number is 86220.
17 Then, China, the make is tapered roll bearing using
18 the chrome steel. The information number if 52100,
19 actually a totally different cost of the low material.

20 Timken is using the steel called a case
21 carbonized steel. It needs 1,200 per tons for low
22 material. Then, we use the steel, chrome steel. It's
23 \$600 per ton. So, that tremendously is a totally
24 different cost of the material, when we make those
25 bearings. So, then, also in America, most of the big

1 customers in here, maybe they know, they're using all
2 Timken bearings, the cost of the carbonized bearings.
3 So, we have no chance to get in and also no chance
4 also because in China, there's no certificate supplied
5 for the steel source; for example, make the bearing,
6 the steel source, we cannot find a source in China.

7 MR. GODFREY: That's part of the
8 explanation. I think the other part of your question
9 is why the values, for example, in the Chinese home
10 market, or to third countries different than they are
11 to the exports to the United States. And with your
12 forbearance, if we could answer that very specific
13 question in the post-conference brief, after we've had
14 a chance to talk it over, and get the question fully
15 understood.

16 COMMISSIONER ARANOFF: Okay. That would be
17 fine. One of the things that I'm trying to get at,
18 other than just understanding why the unit values are
19 the way they are, is whether the fact that the Chinese
20 industry is apparently able to charge more for
21 bearings that it's selling to the home market is an
22 indication that they actually can produce custom
23 products or high-end products of whatever you want to
24 call them, that are being sold to OEMs, who are
25 producing in China, and whether that's an indication

1 that it's only a question of time before they can
2 qualify for the same kind of sales in the United
3 States.

4 MR. GREENWALD: That's a fair question and -
5 - I mean, what I suspect is true, is that the
6 incidents of higher-grade bearings sold in China is
7 higher, that the Chinese qualification is much easier
8 for a Chinese company in China, than it would be to
9 get on, let's say, Eaton's qualification list. I
10 understand this company has been visited on more than
11 one occasion by Deere, I believe, and it just has
12 never been able to qualify.

13 COMMISSIONER ARANOFF: Well, I appreciate
14 that answer and I guess my question to you, in terms
15 of the foreseeable future, is that a progression and
16 how long is it going to take. Okay. Thank you, very
17 much. My light is yellow, so I will pass it back.

18 CHAIRMAN KOPLAN: Thank you, Commissioner.
19 Mr. Jaffe and Dr. Button, let me start with you. On
20 page 52 of your brief, you state, 'as for those
21 instances in which subject imports undersold U.S. ball
22 bearing shipments, the figures from the staff report
23 demonstrate that the imports in question did so absent
24 any adverse impact.' Your discussion of the trend
25 line and sales quantity fluctuation doesn't get me

1 there on that particular argument. So, instead, I'm
2 wondering, for purposes of your post-hearing
3 submission, can you provide me with an analysis of
4 profit margins for the referenced transactions that
5 you have in your brief that are bracketed?

6 MR. JAFFE: Yes, we will.

7 CHAIRMAN KOPLAN: Thank you. Let me stay
8 with you, because you're doing so well right now.

9 MR. JAFFE: Thank you.

10 CHAIRMAN KOPLAN: You note on page 58 of
11 your brief that 'even if subject imports happen to be
12 priced lower than the domestic like product, and there
13 is no evidence that they are or would be in the
14 future, it is readily apparent in the automotive OEM
15 sector that they would not have a significant
16 depressing or suppressing effect on the price of
17 domestic like products, because in this sector, it is
18 quality, availability, product consistency, and
19 reliability of supply that account, not price.' I'd
20 like you to reconcile this for me with the
21 confidential staff report at pages BB, Chapter 2,
22 pages 17 and 19, including Tables 2-1 -- that one is
23 entitled 'ball bearings ranking of purchaser factors
24 by purchaser' -- and Table 2, 'ball bearings
25 importance of purchasing factors.' The staff points

1 out, at BB2-17, 'price was an important factor for
2 most purchasers,' and I heard that from those in
3 support of continuation this morning. If you want me
4 to believe that price doesn't count in the automotive
5 OEM sector, what more can you give me on that now?

6 MR. JAFFE: Well, we'll respond to that, but
7 I should say that, well, in market-driven economies,
8 in which you have market-driven companies, price does
9 count. What we were trying to phrase there was the
10 fact that there were other elements that count more
11 and I believe --

12 CHAIRMAN KOPLAN: Excuse me, these other --
13 I don't dispute the fact that in these matters, I
14 always see quality, availability, product consistency,
15 and reliability as factors. But, you're discounting
16 price completely in the quote. That's what I'm trying
17 to get at.

18 MR. JAFFE: No, and I understand. And I
19 will correct that in the post-hearing submission. It
20 was meant to indicate that these other factors are
21 important factors, critical factors, and they come
22 first before price. So, I would like to correct that
23 quote, if I may here.

24 CHAIRMAN KOPLAN: Thank you.

25 MR. JAFFE: And then I would think, at the

1 same time, you've heard the testimony of purchasers
2 here today, that they concur with that opinion, as do
3 other elements that are confidential in the
4 questionnaires. But, again, I would like to correct
5 that quote.

6 CHAIRMAN KOPLAN: Thank you, very much. I
7 appreciate that. Mr. Eich and Mr. Peacock, I note on
8 Table -- ball bearing table in Chapter 4, at page 2,
9 and that one is entitled 'ball bearings, U.S.
10 importers end of period inventories by sources from
11 2000 to 2005,' of our confidential staff report, in
12 Chapter 4, at page 9 of the ball bearing chapters,
13 'that inventories of Japanese imports have increased
14 significantly toward the end of our period of review,
15 from 30.8 million complete bearings in 2003, to 83.9
16 million complete bearings in 2005.' The information
17 was compiled from responses to Commission
18 questionnaires. What is the explanation for that
19 increase, if you can tell me?

20 MR. UNGER: This is Don Unger for NTN. I
21 believe there has been additional data submitted to
22 the staff after the staff report was prepared that's
23 not reflected in that table. That will be and we can
24 explain that further in the confidential submission.

25 CHAIRMAN KOPLAN: I appreciate that. Thank

1 you. Is there anything you can say on it now or would
2 you rather leave it at that?

3 MR. UNGER: There was an error, I would say,
4 on the record.

5 CHAIRMAN KOPLAN: Okay. All right. In your
6 brief on page 36, you state, I'm staying with the same
7 witnesses, you state that 'like NSK, JTEKT's continued
8 production of custom bbs in Japan largely serves the
9 demands of customers located in Japan and Asia.'
10 Referring back to inventory data from our ball bearing
11 table in Chapter 4, at page 2, that I read into the
12 record a moment ago, I'd like to know whether Japanese
13 ball bearing exporters have to recertify with U.S.
14 purchasers, if the orders are revoked. I ask that,
15 because you haven't exited our market. And assuming
16 U.S. prices are higher than in other markets, why
17 wouldn't the domestic market be as attractive as it
18 was during the original period of investigation?
19 First, if I could hear on the recertification part of
20 that. Mr. Eich or Mr. Peacock?

21 MR. UNGER: If I understand -- this is Don
22 Unger, again -- your question on the recertification
23 is if the order is revoked, would, say, NTN, for
24 example, have to, if they decided to supply anew from
25 Japan, they would have to go through the

1 recertification process?

2 CHAIRMAN KOPLAN: I am wondering if they're
3 already certified, because they're still in the
4 market.

5 MR. UNGER: Right.

6 CHAIRMAN KOPLAN: That's what I'm asking.

7 MR. UNGER: Okay.

8 MR. EICH: Yes, Pete Eich. If we are
9 supplying a bearing to the automotive, say, that's
10 manufactured in the U.S. --

11 CHAIRMAN KOPLAN: Yes.

12 MR. EICH: -- and we wanted to supply that
13 from a plant outside of the U.S., then we would have
14 to go through and get recertified. Is that your
15 question?

16 CHAIRMAN KOPLAN: Yes, that's the question.
17 But, if you're already supplying it, because, as I'm
18 saying, you haven't left the market, do you have to
19 start over again on the certification process?

20 MR. EICH: The certification process might
21 not be as extensive as the first time, but you would
22 have to go through and requalify a new manufacturing
23 site.

24 CHAIRMAN KOPLAN: So, it would be shortened
25 -- the time line would be shortened for that?

1 MR. EICH: It's possible; not in all cases,
2 but it is possible.

3 CHAIRMAN KOPLAN: What's a normal time line?

4 MR. EICH: Usually, one to two years.

5 CHAIRMAN KOPLAN: One to two years.

6 MR. EICH: Yes.

7 CHAIRMAN KOPLAN: And how much would it be
8 shortened?

9 MR. EICH: It would depend on the
10 application, but it may be shortened to as little as
11 six months or it may take the full two years.

12 CHAIRMAN KOPLAN: Do you think you could
13 expand on that in the post-hearing for me?

14 MR. EICH: Yes.

15 CHAIRMAN KOPLAN: Because that's quite a
16 range, anywhere from six months to one to two years.
17 Thanks. Mr. Rouse, you had your hand up?

18 MR. ROUSE: Yes, I'd like to add a comment.
19 Mr. Rouse. I think that for a lot of the import
20 product that still exists, those are for specific
21 applications and there isn't an interchangeability or
22 commonality, the applications here in the U.S. At the
23 time we received business in Japan, if it's intended
24 for the U.S. market, for example, we don't have the
25 production capability here, don't have that right type

1 of product line in place, we will import that product
2 from Japan and later, if the volume goes to where we
3 can justify the investment, and the U.S. will do that.
4 But, there's usually not common approval for U.S.
5 product and Japan product, so that if we want to
6 discontinue in the U.S., we're already approved from
7 Japan. We would have to get approval for that
8 application in the U.S. for a Japan product. So, it
9 is an additional approval process. It's not something
10 where we're duly approved.

11 And I would agree with the comment that the
12 amount of approval time depends on the customer and
13 depends on the application. Some applications, it
14 will still take 18 months to 24 months. Some might be
15 shortened, if we're supplying to the same kind of
16 application with the same basis design in Japan.

17 CHAIRMAN KOPLAN: Thank you, very much.

18 MR. ROUSE: But, we can clarify that further
19 in post-hearing.

20 CHAIRMAN KOPLAN: Post hearing, thank you.
21 I see my yellow light is on, so I will turn to
22 Commissioner Hillman. Thank you for your answers thus
23 far.

24 COMMISSIONER HILLMAN: Thank you and I, too,
25 would join my colleagues in welcoming you all to this

1 afternoon, nearly this evening. We, very much,
2 appreciate all of your efforts to remain with us and
3 to stay engaged in this process. We thank you and I
4 want to express my appreciation, as well, for the
5 breadth and depth of this panel. It is extremely
6 helpful for us to hear both from producers, importers,
7 purchasers, users, and the entire array of folks
8 collected here.

9 If I could start with the issue of what to
10 make of what happened after we revoked the orders in
11 2000 and maybe start with you, Mr. Bergqvist, if I
12 could. You mentioned that for a variety of reasons,
13 companies such as yours, that have production
14 facilities overseas, but have also chosen, whether
15 it's to get around the dumping order or for any other
16 reason, to also have U.S. production would not be
17 likely to increase your imports from your home
18 European countries, because you would be competing
19 with yourselves in the market, because you went
20 through a number of things in your testimony. And,
21 yet, if I look, for example, of what happened when we
22 revoked the order on the spherical plain bearings from
23 Germany, say, we were looking at imports going from in
24 the order of three million up to 15 million, I mean, a
25 huge increase, presumably, from the same producers

1 that said exactly the same thing to us in 1999, oh,
2 no, we won't import, because we're here, we have all
3 these operations here, we won't do it. And, yet, the
4 data on the record is clearly showing this very
5 significant increase in the volume of imports from the
6 countries where the orders were revoked.

7 So, if that's what happened before, why
8 should I now look at the market and say, but, it won't
9 happen again or it won't happen in this instance for
10 these products that are still under order?

11 MR. BERGVIST: Again, Bo Bergvist. I'm glad
12 that you mentioned not only the big increase number,
13 but also the absolute dollars, because this is a
14 fairly product range. It, also, has been mentioned,
15 there are two different standards: one metric and one
16 inch standard. And we were -- with the antidumping
17 order, we had our inch manufacturing here in the U.S.
18 Customers asked for metric and it was too expensive
19 for us to tool up. So, when that was revoked, okay,
20 we got some metric orders. But, that was not just
21 because we could start pricing the products in a
22 different way; it was because the demand was there.

23 COMMISSIONER HILLMAN: Okay. So, you're
24 saying that this big increase was largely demand
25 driven? I just want to make sure I'm understanding

1 it.

2 MR. BERGVIST: Yes.

3 COMMISSIONER HILLMAN: I understand the
4 dollar figures, but if I look at them as a percentage
5 of our market, it's not an insubstantial market share
6 that Germany would have obtained, again, in this
7 period, once the order was revoked. So, I'm trying to
8 understand how it would be -- again, why it would be
9 different this time.

10 MR. BERGVIST: I don't think we have exactly
11 that same situation in other cases, where we had such
12 a short distinction between the inch and the metric
13 standards --

14 COMMISSIONER HILLMAN: Okay.

15 MR. BERGVIST: -- as we had on this one.

16 COMMISSIONER HILLMAN: All right. And then,
17 Mr. Peacock, if I could perhaps go to you. You had
18 mentioned this issue, again, on whether or not some of
19 this related to Timken bringing in -- it wasn't clear
20 to me, whether it was green product or finished
21 product. But, again, if I look at the numbers of what
22 happened when we revoked an order in Japan, again,
23 it's not an insubstantial change. It's going from
24 somewhere in the area of \$16 million in imports in
25 that case, to almost \$200 million. So, it's not a

1 small increase in coming in from Japan once we revoke
2 the order. I'm not sure whether I -- what I was
3 hearing you say, you think all of that increase was as
4 a result of direct Timken imports. Or help me
5 understand how you would have us look at what happened
6 when we lifted this order. On the Japan tapered
7 bearings, we see this huge increase. If that's what
8 happened before, what's different now?

9 MR. PEACOCK: Again, Tom Peacock from Koyo.
10 The reasons behind the increase are not solely Timken.
11 They are a majority of the increase. And, again,
12 changing over in 2001 or 2002 from U.S. tubing, moving
13 to forgings, starting off with Japanese was a major
14 increase in the TRB imports, which, I believe, our
15 various lawyers for the different Japanese groups can
16 add to in a post-hearing brief. But, we admit that,
17 of course, there was some increase from us, too. As
18 Mr. Griffith stated, the last couple of years, we've
19 been in a 30-year spike for U.S. demand. So, to
20 satisfy our customers -- you know, some of the end
21 users here today maybe can answer the question, as
22 well. The TRB demand over the past few years had a
23 significant spike. So, we did increase slightly, but
24 I think it was in terms of the U.S. demand spike. The
25 overall surge that the Petitioner would refer to has

1 to be taken into context with the amount that they
2 imported, which was clearly the majority of that
3 surge.

4 COMMISSIONER HILLMAN: Well, obviously, we
5 have -- Mr. Greenwald, go ahead.

6 MR. GREENWALD: First, the Petitioners have
7 used the increase in Japan as an indicator of what
8 they believe is going to happen with Japanese. That's
9 a separate story. But when you look at the data
10 you're looking at, in the increase in Japan of TRBs,
11 what I was struck with is how concentrated the
12 increase is in 2004 and 2005, if you're looking at the
13 same numbers I'm looking at.

14 COMMISSIONER HILLMAN: Yes.

15 MR. GREENWALD: Okay. Those are precisely
16 the years that Timken is on allocation. There is an
17 acute shortage. So, the notion somehow that the
18 Japanese testimony was misleading, I think is
19 disproved by what is the sort of basic supply and
20 demand. You have just learned from Eaton, where
21 Timken says to Eaton, go look elsewhere for your
22 bearings. Timken could not supply. So, of course,
23 you're going to have a spike. But, there's a very
24 heavy proportion of that increase in the last two
25 years.

1 The second part that I want to address are
2 the implications for China. Do you have the
3 Petitioner's brief there?

4 COMMISSIONER HILLMAN: I do.

5 MR. GREENWALD: All right. If you look at
6 pages 92 and 93, I was before you guys, how many years
7 it was, in ball bearings. And what you see is a
8 similar graph with regard to ball bearings. But, when
9 you look at it -- there's two. One is a 1992 and they
10 talk about the volume and the volume is essentially
11 flat. It is not a very big increase from China, if
12 you're looking at the one on page 92, okay. Now, if
13 you turn the page over and you look at the grey bars,
14 you see an increase. So, you see an increase in the
15 value, but not in the volume. That says to me that
16 the Chinese got the message that they've got to watch
17 their pricing. Now, isn't that what it says to you,
18 if your volume is more or less flat --

19 COMMISSIONER HILLMAN: I mean, I would, as a
20 general matter, invite anybody that wants to comment.
21 As you know, Mr. Greenwald, and all counsel that have
22 been here, this is one of these difficult products for
23 the Commission, in terms of how to assess this volume,
24 value issue. I mean, anytime you have products that
25 can range from less than a penny a bearing, to

1 thousands, if not hundreds of thousands of dollars per
2 item, we have always shied away from the notion of
3 using AUV data. We have clearly shied away from
4 either using piece data, I mean, volume data based on
5 units. We have traditionally always, in this
6 industry, relied on value data as our assessment of
7 volume and have been extremely leery of looking at AUV
8 data or value per bearing data or any of that. If you
9 are now suggesting that we should depart from that and
10 look at this data in some other way, I'm happy to hear
11 it. But --

12 MR. GREENWALD: What I'm suggesting --

13 COMMISSIONER HILLMAN: -- I've been well
14 schooled that in this industry, I should only look at
15 value data, because everything else skews the numbers.

16 MR. GREENWALD: What you have in
17 Petitioner's brief are two graphs. And if you assume
18 they're all constant, then what it means is the
19 Chinese are increasing their prices, which is
20 precisely what is supposed to happen. The other
21 alternative is that they are moving into how to lower
22 value bearings into higher value bearings and then you
23 have -- but, you have a whole different equation then
24 about whether or not they're dumping. It seems clear
25 that whatever the Chinese are doing, it is with higher

1 prices. That much is --

2 COMMISSIONER HILLMAN: Okay.

3 MR. GREENWALD: -- the only conclusion you
4 can arrive at from these two --

5 COMMISSIONER HILLMAN: All right. I'll let
6 Dr. Button comment and then --

7 MR. BUTTON: Let me speak briefly. It has
8 to do with Japan --

9 COMMISSIONER HILLMAN: Okay.

10 MR. BUTTON: -- and what you heard this
11 morning, quickly, is that the Japanese industry would
12 respond quite rapidly, increasing the volume of
13 imports in the United States. It can do so quickly.
14 And they use the example of the TRB numbers, which are
15 shown in their brief. As noted, if you look at the
16 timing of the increase and if you look at the value
17 figures, you'll essentially see that it was flat for
18 three years and then there was a more recent increase.
19 Among other things that it does tell you is that there
20 is a response. It was certainly not an immediate
21 surge brought on by the lifting of the order. Indeed,
22 it appears it was drawn in by other factors, as we
23 have described, which were the customer demand side.

24 COMMISSIONER HILLMAN: Okay. Thank you. I
25 appreciate those answers.

1 MR. ELLIS: Excuse, Commissioner Hillman,
2 it's Neil Ellis --

3 COMMISSIONER HILLMAN: Yes.

4 MR. ELLIS: -- at Sidley Austin. I'm
5 counsel for Koyo and I'm standing here. Just to
6 clarify one of the points that Mr. Peacock just made,
7 the point about the shifting from the bar to the
8 forgings and how that impacted the imports from Japan,
9 to clarify it, that was a Timken plan, a strategic
10 move, shifting from bar as a basis of production of
11 TRBs -- tubings to forgings. And forgings, at the
12 time, were available only from Japanese producers,
13 while Timken was attempting to ramp up its production
14 of forgings, and that's another part of the problem,
15 in addition to the demand pull that the other people
16 have testified to.

17 COMMISSIONER HILLMAN: Okay. And I
18 apologize, only just so it's clear on the record, I
19 just want you to make sure I understand which of that
20 is subject product, as I understand it -- you know,
21 green product is not yet -- is not considered subject
22 product. How are data captures, subject versus non-
23 subject.

24 MR. ELLIS: No --

25 COMMISSIONER HILLMAN: In a post-hearing, if

1 you can just clarify the numbers that you're talking
2 about and which of them involve product that would be
3 subject to this order, given the scope definition, and
4 what would not, if that can be done for the post-
5 hearing.

6 MR. ELLIS: I assume it can be done. But,
7 TRBs, everything was subject. There were huge scope
8 battles at the Department of Commerce and everything
9 was made subject. But, it's a different threshold in
10 ball bearings.

11 COMMISSIONER HILLMAN: Okay. I appreciate
12 that clarification. Thank you.

13 CHAIRMAN KOPLAN: Commissioner Lane?

14 COMMISSIONER LANE: Mr. Greenwald, I realize
15 it's been a long day, but I'm not sure I've ever heard
16 the Commission referred to before as 'you guys.' Do
17 you want --

18 MR. GREENWALD: For the record, I apologize.

19 COMMISSIONER LANE: Do you want us to strike
20 that from the transcript?

21 MR. GREENWALD: You can either do that or
22 keep your admonition in. But, you're right, and I do
23 apologize.

24 COMMISSIONER LANE: That's okay.

25 CHAIRMAN KOPLAN: I join with Commissioner

1 Lane on that.

2 COMMISSIONER LANE: I would now like to talk
3 about capacity and capacity utilization and it relates
4 to a question that Commissioner Aranoff asked this
5 morning of the domestic industry. It is possible and
6 not uncommon to run industrial operations three shifts
7 a day. However, if your reported capacity based on
8 running two shifts per day, the reported capacity
9 utilization might be 100 percent, when the facility
10 was running at 70 percent or less of its physical
11 capability. Parties in support of the order that
12 reports of capacity utilization over 100 percent,
13 particularly when such rates are calculated using two
14 or fewer shifts per day, make it appear that there is
15 no excess capacity available, increasing production,
16 when, in fact, there is ample capacity that is not
17 reported. Please comment on how the Commission should
18 interpret relatively high capacity utilization rates
19 that are based on operating less than three shifts per
20 day. If the physical capacity is there for 24-7, then
21 wouldn't a calculation of capacity based on two shifts
22 understate capacity and overstate utilization?

23

24 COMMISSIONER LANE: I hope nobody asks me to
25 repeat that.

1 Mr. Rouse?

2 MR. ROUSE: This is Mr. Rouse. I'll speak
3 just for NSK in the way we respond.

4 We get many requests from our automakers to
5 provide capacity information as we're tooling up for
6 supply. We always, almost always, I can't say 100
7 percent, utilize a five day, three shift basis for
8 calculation of our capacity. It doesn't mean we don't
9 have the capability to do more than that. In fact our
10 automakers usually also look for us to indicate what
11 we can do more. How much can we produce on a six day
12 or seven day basis. That's usually the factor that
13 indicates what we can do more than our stated 100
14 percent capacity. It's efficiently producing on five
15 days, then utilizing six days or seven days when the
16 demands go higher than the practical capacity levels
17 to achieve those level of requirements.

18 Then on an ongoing basis we can achieve
19 greater production levels just through our
20 productivity improvements. So for improving five
21 percent in a given year that in effect allows us to
22 produce more than our stated capacity. If we state it
23 one year, two years later we may be able to produce
24 ten percent more just based on those productivity
25 improvements. But that's the logic that NSK uses to

1 state capacity.

2 We can clarify that more in our post-hearing
3 documents.

4 COMMISSIONER LANE: Thank you.

5 MR. ANDERSON: Commissioner Lane, this is
6 Chuck Anderson. I'll tell you what I've seen in
7 bearings plants which is a bearings plant is just not
8 one continuous flow, there are different cells doing
9 different things including grinding and assembly. One
10 of the most important is heat treatment.

11 In the bearings plants I've seen, oftentimes
12 there will only be one or two shifts of grinding and
13 assembly, three full shifts of heat treatment because
14 the heat treatment is the most capital intensive
15 equipment and it's usually the bottleneck in a
16 bearings production plant. Unless you have enough
17 heat treatment capacity to run at three shifts, 24x7,
18 you can only do that for a very limited amount of
19 time.

20 Now some people might say you can go outside
21 and get heat treatment, but then again there has to be
22 outside capacity for heat treatment.

23 So just because a company says it's running
24 two shifts five days a week doesn't mean they have the
25 theoretical capability to run indefinitely seven days

1 a week, 24 hours a day.

2 COMMISSIONER LANE: Does anybody else want
3 to answer that?

4 Okay, thank you.

5 Mr. Rouse, in your prepared statement you
6 indicated that it was not economical to produce
7 standard or less technical bearings in the United
8 States. We often hear that labor costs in the United
9 States are a significant factor that make some U.S.
10 produced products that are labor intensive
11 uneconomical when compared to production in some
12 foreign countries. However, it does not appear that
13 labor is as significant a cost factor for this
14 industry as for other industries that we have
15 reviewed.

16 What cost components in United States
17 production create the situation that you described,
18 that it is not economical to produce standard or less
19 technical bearings in the United States?

20 MR. ROUSE: This is Mr. Rouse.

21 Actually my opinion is that labor is a major
22 factor, especially for more standard products. As we
23 get to more technical, custom products then labor
24 becomes less of a factor, but for standard bearings
25 labor becomes more of a factor because the equipment

1 is usually high volume production and the cost on the
2 equipment side or the operating cost side may be less
3 as a portion of the total so labor becomes a bigger
4 factor for standard and less technical products. I
5 believe that is a major reason.

6 COMMISSIONER LANE: Thank you.

7 Dr. Button, in your prepared statement you
8 differentiated between more technical and less
9 technical custom bearings. Mr. Rouse and others have
10 used the terms more technical and less technical
11 bearings.

12 Can you give me a better feel for how you
13 differentiate between more technical and less
14 technical customized bearings? Is there any dividing
15 line or is that a moving target and visible only in
16 the eyes of the beholder?

17 MR. BUTTON: I'm going to let the industry
18 witnesses describe that in terms of the technical
19 details of the specific bearings.

20 MS. TEFFT: Actually, Madame, I'd like to
21 answer that from a customer's perspective.

22 COMMISSIONER LANE: Is that Ms. Trip?

23 MS. TEFFT: Tefft.

24 When we look at highly technical versus less
25 technical bearings its basically due to the positions

1 within our transmission case. We have certain
2 bearings that are considered high risk and others that
3 take low loading or no risk in the bearings, so
4 therefore the warranty on those or chance of failure
5 would be less. That's how we differentiate it.

6 But again, practically speaking, from a
7 qualification standpoint, we still use the same
8 criteria to address those testing issues for both the
9 low and the high critical bearings.

10 COMMISSIONER LANE: Mr. Unger?

11 MR. EICH: I guess if you look at less
12 versus more technical there's a lot of different
13 factors that could come into play. For example, we
14 may develop a special material that's unique to our
15 company that we can apply to the bearing in order to
16 increase performance in an application. We can also
17 apply unique heat treatment process that's unique to
18 our company that will allow the bearing to survive
19 longer in an application.

20 We also develop special seal material,
21 special seal designs, again that are somewhat unique
22 to each of our companies that allow a bearing to
23 perform better than a less technical bearing.

24 So it could be material, heat treatment,
25 process oriented, where we're doing something unique

1 to try to get a higher performance in an application.

2 COMMISSIONER LANE: Mr. Rouse?

3 MR. ROUSE: I'd like to support the comments
4 that have already been made in that mostly it's the
5 needs of our customers and the performance
6 characteristics of the application that many times
7 dictate. Sometimes it's the product innovation that
8 we develop into the product, but in most cases it's
9 the customer performance requirements that dictate the
10 level of technical requirement. So from that
11 standpoint sometimes it is a moving target from the
12 customer perspective.

13 COMMISSIONER LANE: Mr. Chairman, I'll wait
14 until my next round to ask my last question.

15 Thank you.

16 CHAIRMAN KOPLAN: Thank you, Commissioner.
17 Commissioner Pearson?

18 COMMISSIONER PEARSON: Going back to what we
19 were talking about earlier, how will your businesses
20 evolve differently if these orders are revoked
21 compared to if they are continued? I understand some
22 of what you might be planning could be confidential,
23 so don't discuss that in public, but rather I'd
24 appreciate it in the post-hearing.

25 Let me go first to Ms. Matthews because you

1 had that relatively dramatic example of production
2 moving to Canada. Would there be a reversal of that
3 type of move? Have I identified the correct person,
4 Ms. Matthews?

5 MS. MATTHEWS: As I did state in my
6 testimony, we would most likely move that business
7 back to the United States. That's not a firm
8 decision, but we would certainly strongly consider it.

9 COMMISSIONER PEARSON: It would rationalize
10 your production more to have that particular product
11 made in the United States even though you currently
12 have the capability to produce it in Canada?

13 MS. MATTHEWS: Yes.

14 COMMISSIONER PEARSON: Other comments?
15 There are a lot of you here asking that we lift these
16 orders. What's it going to mean to your business,
17 being as tangible as you're able to be.

18 Mr. Rouse?

19 MR. ROUSE: This is Mr. Rouse.

20 As I stated previously, I believe it will
21 improve our cost competitiveness because we can
22 eliminate some costs that are non value added costs
23 related to the dumping process.

24 In addition I still think we will look at
25 the marketplace solely based on the needs of our

1 customer and how we can best support those customers.
2 We will increase our domestic investment if there's an
3 opportunity for receiving custom high tech business
4 here in the U.S. We will increase our domestic
5 investment but that will exist with or without the
6 dumping order in place.

7 But I don't believe that some of the things
8 that were outlined in this morning's testimony will be
9 the result of removing the dumping order. I think
10 there were kind of a theoretical basis, five things
11 outlined as what companies will do to improve their
12 profitability if the dumping doesn't exist. But what
13 was missing from that is investment in domestic
14 capability.

15 In the case of TRBs which was discussed a
16 few minutes ago, NSK is a relatively small player in
17 that side of the business and I know that we have
18 increased some of our business here in the U.S. with
19 imported product. That was done for the reasons
20 stated earlier. Our competitors in the U.S. couldn't
21 supply. We had customers who were big customers of
22 ours on the ball bearing side that were looking for
23 someone to supply and we had the proven overall
24 technical capability and quality and delivery
25 performance so we were given opportunities and we've

1 gained more business.

2 Now we're looking to expand our investment
3 in the U.S. for TRB product. That's much different
4 than the five potential scenarios that were described
5 in that theoretical commentary this morning.

6 So I believe we're going to make more
7 investments in the U.S. that make sense and
8 eliminating the dumping order will help allow us to do
9 that because it eliminates some unnecessary expense.

10 COMMISSIONER PEARSON: Thank you.

11 Other comments? Mr. --

12 MR. PEACOCK: This is Tom Peacock from Koyo.
13 Basically Koyo concurs with everything Mr. Rouse said.
14 We have the same situations that we've undergone in
15 the last few years and we've continued to invest for
16 50 years in this country and we will continue to
17 invest. Basically I would just say ditto to what Mr.
18 Rouse just testified to.

19 COMMISSIONER PEARSON: Mr. Bergqvist?

20 MR. BERGQVIST: In addition to agreeing to
21 the two previous speakers I need to add one dimension.
22 That is currency zone.

23 We are trying to also match our cost with
24 our revenues in the different currency zones. Of
25 course we can never do that perfectly over the world,

1 but that is definitely one factor when we are deciding
2 where to manufacture product.

3 So will there be an increase in imports?
4 That's a possibility, but there could also be an
5 increase in exports.

6 When you have been looking at a lot of the
7 import/export statistics from the European companies,
8 you catch a lot of imports and exports between
9 European countries where SKF is operating because we
10 have specialized production of different types in
11 different countries, so that kind of exaggerates those
12 numbers.

13 But currency zone is an important
14 consideration.

15 COMMISSIONER PEARSON: Okay.

16 MR. HORACK: Commissioner Pearson, Greg
17 Horack with Caterpillar.

18 I would like to concur with some of the
19 comments that have been made. And basically like we
20 stated earlier, our position really wouldn't change as
21 far as how we view the market. We're still going to
22 use quality, certified suppliers that provide the
23 technical support for our products.

24 COMMISSIONER PEARSON: So you wouldn't go
25 out switching bearing suppliers as you would just

1 obtain more competitive costs on some of the bearings
2 that you currently are importing and paying the duty
3 on.

4 MR. HORACK: It would supply more options
5 for Caterpillar to be competitive in the fields that
6 it sells its equipment.

7 MR. MORGAN: Frank Morgan, White & Case.

8 Commissioner Pearson, for Singapore I think
9 we'd like to get into the reasons in a confidential
10 submission, but one thing I think we can say publicly,
11 it was in our testimony, is it would not be to go back
12 after market share that we lost to China and that the
13 domestic industry alleged. So I just wanted to make
14 that absolutely clear for the public record and we'll
15 go into more detail on the confidential.

16 MR. ANDERSON: This is Chuck Anderson again.

17 I'm pretty sure that what would not happen
18 would be a massive shift in the relocation of
19 production. Dr. Kaplan is correct in that
20 multinational bearings companies are in fact profit
21 maximizers but when you state that assumption then you
22 have to take into account the substantial investments
23 they've made in third countries, lower cost third
24 countries, as well as in the U.S. market. Why would
25 they walk away from those investments when Europe is

1 such a relatively high cost production platform?

2 In addition it fails to account for the fact
3 that there's a normal nine percent tariff on most ball
4 bearings imported into the United States which is a
5 significant barrier in and of itself which is not
6 going to go away with the dumping order.

7 Finally, it fails to take into account the
8 massive increase in the market with the expansion of
9 the EU. That represents more localized, regionalized
10 markets that are growing much faster than the U.S.
11 market and are much easier for the Western Europeans
12 to service.

13 So to suggest there would be massive
14 relocation of production, that somehow the production
15 would all shift back to Western Europe I think is
16 fairly, you can fairly confidently predict that that
17 will not happen.

18 COMMISSIONER PEARSON: Shifting gears then,
19 thank you very much, and I would appreciate if you've
20 got a follow up that you would put in the post-hearing
21 any specific examples that you'd rather not discuss in
22 public, by all means send them to us in private.

23 Shifting gears, the domestic industry sees
24 the auto sector as being somewhat weak. Would you
25 characterize it the same way or do you see it

1 differently?

2 MR. JAFFE: Could I just add to that,
3 Matthew Jaffe.

4 I just want to clarify, we are the domestic
5 industry. When it comes to the automotive OEM sector,
6 this is the domestic industry. I just want to make
7 that clarification here, and for most of the responses
8 here. It's a very different dynamic that you have
9 here.

10 So I'll let them now respond --

11 COMMISSIONER PEARSON: This morning's panel,
12 sorry. go ahead.

13 MR. ROUSE: Mr. Rouse.

14 Is it a weak industry? I think there are
15 many dynamics in the industry that make it a struggle
16 for the entire supply base of the auto industry to
17 turn an operating profit right now. In fact I
18 attended an automotive conference earlier this year
19 and there was a presentation done by an economist that
20 showed that if you gathered the profits of the top 150
21 manufacturers to the auto industry, including the
22 automakers themselves plus all the top automotive
23 suppliers, the total profitability over the last two
24 years for that top 150 is zero.

25 So the struggles of suppliers to the

1 automotive industry really reflect a total industry
2 condition, not just the bearing industry. However, I
3 can say that for NSK we've taken the necessary steps
4 to improve our overall performance in the automotive
5 marketplace by providing product innovation, improving
6 our efficiency in our domestic plants, and turning our
7 operating profits positively in spite of some of the
8 economic conditions in the marketplace. So yes, it's
9 a tough market but it's not just for the bearing side.

10 COMMISSIONER PEARSON: In that case, if we
11 correctly could see the auto industry as troubled,
12 wouldn't we take that as an indication of
13 vulnerability on the part of the supporters of the
14 continuation of these orders?

15 MR. KLETT: Commissioner Pearson, this is
16 Dan Klett.

17 I think the domestic industry actually
18 characterizes it just the opposite. In other words
19 Timken has taken a clear, explicit strategic position
20 to move away from the auto industry. Basically this
21 restructuring it characterizes, and you can see some
22 of the quotes I have in this little handout,
23 characterizes that as a positive thing for its bearing
24 business. Basically it says we've made a strategic
25 decision to invest, to move away from the auto

1 industry, to move toward the industrial bearings which
2 are higher profit, and in fact getting into custom
3 standard, it says we expect Timken to trim, this is
4 Morningstar that says this but it's referring to
5 Timken, we expect Timken to trim 10 to 15 percent of
6 its product portfolio, divesting lower end bearings
7 and concentrating on more highly engineered product
8 packages.

9 Essentially that reflects the shift from
10 automotive to industrial.

11 I think it does not reflect vulnerability.

12 COMMISSIONER PEARSON: Thank you.

13 The red light's on again, Mr. Chairman, so
14 I'll stop.

15 CHAIRMAN KOPLAN: Thank you.

16 Commissioner Aranoff?

17 COMMISSIONER ARANOFF: Thank you, Mr.

18 Chairman.

19 Mr. Shelley, is it fair game to ask your
20 client some questions about SPBs?

21 MR. SHELLEY: Yes.

22 COMMISSIONER ARANOFF: Okay.

23 First of all, I guess I have a question
24 since there's no one else here I think we can ask,
25 about French production of subject SPBs. We didn't

1 get complete coverage of the industry as you're aware
2 of.

3 Can you or Mr. Bergqvist tell us who
4 currently makes SPBs in France?

5 MR. BERGQVIST: Mr. Bergqvist.

6 I don't know who all the players are. I
7 know that SKF is manufacturing certain types of
8 spherical plain bearings in France. Most of them are
9 the ones that are associated with raw dans [ph].

10 The airframe industry is a big customer
11 sector. We are not selling very much of those
12 products in the U.S..

13 COMMISSIONER ARANOFF: If there's anything
14 you can find out from your client in France who can
15 help us to identify, one of the problems we're running
16 into is that there's some resale that goes on between
17 when the product is manufactured in France and when
18 it's imported into the United States sometimes, so
19 that we're not able to trace the chain backwards using
20 the import data to identify who is actually still
21 producing in France.

22 MR. SHELLEY: We'll try to, Commissioner.

23 I think the problem with us getting that
24 data is that the SKF French production of SPBs is a
25 very unique situation. They're not a mass producer

1 like the bigger companies making the non-aircraft
2 bearings. They're in a very special niche and focus
3 primarily on the European market for the Airbus and
4 the other European aircraft companies. So they're not
5 in the true SPB business but they're caught up into
6 the order because of that.

7 The SKF France company that makes ball
8 bearings doesn't make SPBs. They are the ones in the
9 market that we can ask whether they have any data, in
10 fact we did ask at the staff's request and they came
11 back with no answer to us. But we can try to follow
12 up again.

13 COMMISSIONER ARANOFF: I appreciate that.
14 You have the misfortune of being here to be asked the
15 question. So anything you can do.

16 With regard to production of SPBs in the
17 United States, you don't produce them here any more,
18 is that correct?

19 MR. BERGQVIST: That is correct. When we
20 decided to consolidate our manufacturing because we
21 saw that we, I mean we are in a mature business where
22 the possibilities to get our productivity is higher
23 than the long term growth of demand. WE found a
24 couple of years ago that we needed to consolidate to
25 mainly ball bearing factories, Altoona and

1 Gainesville. So we decided to close down Altoona and
2 we moved that production to Gainesville. There was
3 one odd product line in Altoona, that was spherical
4 plain bearings, and we didn't want to over-burden
5 Gainesville so therefore we transferred that to one of
6 our factories in Mexico, in Puebla.

7 COMMISSIONER ARANOFF: One wouldn't want to
8 draw huge broad conclusions from one example, but one
9 of the things the Commission found somewhat persuasive
10 in the first review was that foreign domiciled
11 companies, particularly Japanese and European
12 companies, that had invested in transplant capacity in
13 the United States had a commitment to the U.S. market
14 and weren't going to leave. Should we draw anything
15 from the rationalization that your country's
16 production just went through in the United States that
17 might make the Commission's conclusion in the first
18 review less true?

19 MR. BERGQVIST: With all respect, this
20 product line is way too small for us to be a main
21 player, and as I said, it was easier to move it to
22 Puebla where they could handle the transfer while they
23 were very busy in Gainesville to absorb the other
24 production.

25 COMMISSIONER ARANOFF: Okay, I appreciate

1 that answer.

2 Moving on to a question about ball bearings.

3 In the first review the Commission
4 discounted the percentage of domestic production that
5 opposed continuation of the orders in part because
6 unions representing workers at some of the same plants
7 supported continuation. Has anything changed that
8 should lead the Commission to a different conclusion
9 in this review? Anybody want to take a stab at that?

10 MR. JAFFE: I guess given the response we'll
11 respond to that in the post-hearing submission if
12 that's okay.

13 COMMISSIONER ARANOFF: Okay, thanks.

14 In Timken's brief they attach a part number
15 based comparison which purports to show lower prices
16 for the same part numbers coming from subject
17 countries. Can anyone in the panel comment on whether
18 this is a useful way to compare prices? Particularly
19 in an industry where comparing average unit values is
20 not a very reliable way to compare prices.

21 MR. KLETT: Commissioner Aranoff, this is
22 Dan Klett. I think they used two methods to attempt
23 to show that U.S. prices were higher than elsewhere.
24 One was a comparison of AUVs which I think is the
25 analysis that Dr. Kaplan relied on in part in his

1 studies. I think for the reasons outlined by
2 Commissioner Hillman, that's just completely
3 unreliable in terms of any assessment of what relative
4 prices are.

5 The other method was, I believe they used
6 price lists between different markets which is
7 primarily for, distributor price lists. Because price
8 lists in this market also I don't think are
9 particularly useful, those don't provide you with very
10 good evidence with respect to relative prices in the
11 U.S. versus non-U.S. prices either. Even with the
12 distributor market where the witnesses this morning
13 testified that list prices in the distributor market
14 sometimes are more reliable, they then went on to say
15 you also have rebates and other things going on which
16 I think make those comparisons less reliable.

17 COMMISSIONER ARANOFF: I appreciate that,
18 Mr. Klett.

19 I guess I would invite both sides in your
20 post-hearing, the Commission has been looking more and
21 more in these sunset reviews at comparing U.S. prices
22 to third country prices as one of the things we
23 consider in assessing whether there's an economic
24 incentive to ship product to the U.S. if an order's
25 revoked. I'd like to ask both sides to please comment

1 on what you think in this unusual industry is the best
2 way to get a grip on relative prices in the U.S.
3 versus third country markets. Maybe it's so
4 unreliable that no matter how we do it we just
5 shouldn't look at that.

6 Mr. Morgan, did you want to add something?

7 MR. MORGAN: Commissioner Aranoff, I would
8 just caution with respect to, I imagine you're going
9 to get flooded with catalogs and they're going to
10 reference NMB, and I'd just caution the Commission not
11 to confuse NMB, that that means Singapore, because
12 there's also NMB Thailand. So when you see NMB it's
13 not necessarily Singapore. I just wanted to make sure
14 that was clear because I think that got muddled a
15 little bit in the first review and I think that's
16 carrying through into the second review a little bit.

17 COMMISSIONER ARANOFF: I appreciate that,
18 Mr. Morgan. I guess I'm looking at sort of broad
19 categories of, people are telling me that list prices
20 or catalog prices are no good because nobody actually
21 uses them and AUVs are no good because there's product
22 mix problems. So I'm not sure what's left.

23 MR. JAFFE: This is Matthew Jaffe.

24 Again, I think it's important to note those
25 were distributor price lists. I think our testimony

1 today has indicated that the major markets in the
2 United States are automotive OEM and industrial OEM,
3 so those price lists of course, whatever comparison
4 you might have, do not apply to those particular
5 markets.

6 I also believe there was testimony about the
7 price list used in the United States. I believe it
8 was either the Emerson witness about how those price
9 lists were important, and if you look at the analysis
10 that was done they assumed incredible changes, that
11 the price lists were actually not accurate, that there
12 were huge discounts to those and that was how they
13 were able to derive their analysis.

14 Again, of course, it assumes there is
15 interchangeability across markets, which is not a fair
16 assumption.

17 COMMISSIONER ARANOFF: I appreciate that.
18 And as I said, I invite any of you who can bring me
19 out of my despair that we'll ever really understand
20 relative prices, to make any practical suggestions
21 that you can.

22 MR. ELLIS: Excuse me, Commissioner Aranoff?
23 It's Neil Ellis again from Sidley Austin, counsel for
24 Koyo.

25 Just one point, I understand this is a

1 concept that the Commission is working on more
2 recently, but in this situation there is something
3 peculiar about the theory. On the one hand,
4 obviously, if prices in the United States were lower
5 than in third countries or in the home market, we of
6 course would be accused of dumping. The U.S. industry
7 would be in a vulnerable condition.

8 So the idea that the opposite also leads to
9 a recurrence of injury, because prices in the United
10 States are higher than in third countries or in the
11 home market, seems a little counter-intuitive.

12 We have more factual reasons to address in
13 this particular industry, but there's a theoretical
14 peculiarity about that, I would submit. Thank you.

15 COMMISSIONER ARANOFF: Your point is taken,
16 and if there's a better way we should look at the
17 broader question of economic incentives, we're
18 obviously open to hearing that as well.

19 Thank you very much, Mr. Chairman.

20 CHAIRMAN KOPLAN: Thank you.

21 Mr. Greenwald, looking at page four of your
22 brief, and in the middle of the page you start off so
23 well. You say, "The Commission staff deserves high
24 praise for the focus and energy with which it has
25 developed a record of this review." I'm willing to

1 stipulate to that, actually.

2 (Laughter).

3 MR. GREENWALD: Absolutely.

4 CHAIRMAN KOPLAN: But then you go on and
5 drop the other shoe and you say, "While we take issue
6 with some parts of the staff report," then you go on
7 and say, for example, the staff report misreads the
8 data when it states that, and I quote, you say, "The
9 financial results of the domestic industry drifted
10 slowly downward from 2000 to 2005," and you cite to
11 Chapter 3 on tapered roller bearings at page 10.

12 You say, "In fact, 2000," and then you
13 bracket your characterization of that year and go on
14 to say that it's not what the staff report says that
15 you have a problem with, it's what it doesn't say.

16 So let me ask you to do this for me if you
17 would in the post-hearing. If you would take a look,
18 because the details of your criticism are bracketed.
19 If you take a look at the financial data that appears
20 at pages one and two of Chapter 1 of the confidential
21 staff report on tapered roller bearings, that
22 information is fully bracketed. But what I'm asking
23 you to do for me is take that into account with regard
24 to your paragraph that I just referred to.

25 Because when I look at the information on

1 those pages of the staff report, to me it appears to
2 at least support the staff's conclusion that you are
3 critical of. Would you do that for me post-hearing?

4 MR. GREENWALD: Yes, sir.

5 CHAIRMAN KOPLAN: Thank you very much.

6 Let me stay with you.

7 Let me turn to another table. I'm asking
8 you whether Table in the TRB chapter at page, it's
9 Table 1-5 at page 17 of the first chapter of the TRB
10 discussion in the confidential staff report which
11 summarizes questionnaire responses regarding the end
12 uses of subject and domestic TRBs.

13 I'm wondering whether you think that
14 actually reflects the end use market. That table is
15 fully bracketed, but I'd like you to reconcile it with
16 a statement that you have in your brief which I'll
17 read, and it's the statement in your brief that causes
18 me to ask you to look at what I've cited and respond
19 post-hearing.

20 On page 12 of your pre-hearing brief you
21 state, and I quote, "Most OEM accounts, for example
22 automobile companies, insist on qualifying both their
23 suppliers in the specified TRBs they proposed to
24 supply. The qualification process can take more than
25 a year. Moreover in many cases specific bearings are

1 designed into a product and cannot be substituted by
2 an off the shelf TRB. At present, few Chinese
3 respondents are qualified to supply major OEM accounts
4 in the United States."

5 As I say, you reference there certain
6 selected purchaser questionnaire responses on that
7 point, which are bracketed.

8 So if you take that, look at the portion
9 that I've cited to in the staff report and reconcile
10 it for the post-hearing, I'd appreciate that very
11 much.

12 MR. GREENWALD: I'd be delighted.

13 CHAIRMAN KOPLAN: Thank you.

14 Mr. Schutzman and Mr. Jaffe.

15 On page 3iii of the domestic interested
16 parties' pre-hearing brief they note, and I'm quoting
17 here, "Since the last review the Court of Appeals for
18 the Federal Circuit has affirmed a Commission 337
19 determination that found gray market imports of ball
20 bearings to be entirely legal under U.S. trade laws.

21 "If the orders are revoked the resellers and
22 distributors who are currently subject to all others'
23 cash deposit rates will seek to take advantage of
24 arbitrage by purchasing ball bearings in the subject
25 countries for prices between 20 and 50 percent lower

1 than in the U.S. and selling them in the U.S. at deep
2 discounts off the producers' authorized prices.

3 "The subject producers with U.S. production
4 facilities will use revocation as an opportunity to
5 increase imports to fill out their product lines, to
6 better utilize capacity abroad, and to shift exports
7 to a market characterized by generally higher prices."

8 How do you respond to that argument?

9 MR. SCHUTZMAN: First of all, perhaps Mr.
10 Shelley can speak to this better than I, but I believe
11 that's a mischaracterization of the Court of Appeals
12 decision. I don't think the Court of appeals
13 determined that it was legal. The Court of Appeals
14 determined that SKF was not entitled to relief in that
15 particular case. There may well be other companies
16 with other circumstances --

17 CHAIRMAN KOPLAN: I was reading a quote to
18 you.

19 MR. SCHUTZMAN: I understand.

20 But in terms of the gray market, the gray
21 market does not compete with Petitioners' product.
22 The gray market competes with non-subject merchandise.
23 And it's brand driven.

24 This is the key to the gray market.
25 Distributors, for example, carry a broad array of

1 products. They have to. They carry SKF product and
2 Koyo product and NSK and Schaeffler product. They
3 have to. Most of these bearings, particularly at the
4 distribution level, are now coming from non-subject
5 countries.

6 CHAIRMAN KOPLAN: Thank you.

7 Mr. Shelley? Did you want to add to that?

8 MR. SHELLEY: Mr. Schutzman's right, that is
9 a misquote of the Court of appeals holding. They did
10 confirm the Commission's ruling that we did not, could
11 not obtain relief under Section 337. I --

12 CHAIRMAN KOPLAN: I can't hear you.

13 MR. SHELLEY: The gray market issue, though
14 is a brand-specific issue. It's a trademark issue.
15 And the 337 case was filed to attempt to prevent gray
16 market importers from selling trademark SKF product in
17 the U.S. and taking sales away from SKF and the United
18 States. Its application to the dumping case, whether
19 the order is in place or not, SKF is still being
20 injured because of those types of sales.

21 CHAIRMAN KOPLAN: Thank you both for that.

22 MR. SCHUTZMAN: Commissioner Koplan, can I
23 just add one thing?

24 CHAIRMAN KOPLAN: Yes, Mr. Schutzman.

25 MR. SCHUTZMAN: The euro-dollar exchange

1 rate situation, if there is a gray market coming out
2 of Europe, has essentially evaporated as a
3 consequence.

4 CHAIRMAN KOPLAN: Thank you.

5 Let me stay with you again.

6 The domestic parties claim on pages 6 to 8
7 of their brief that the domestic ball bearings
8 industry is even more vulnerable than the first review
9 due to intensified price competition from the non-
10 subject imports from China. They cite lost market
11 share and low Chinese prices among other factors. How
12 do you respond?

13 MR. SCHUTZMAN: Well, what I can tell you is
14 that insofar as the Schaeffler Group is concerned, the
15 Schaeffler Group does not export ball bearings from
16 China to the United States.

17 CHAIRMAN KOPLAN: Mr. Jaffe?

18 MR. JAFFE: Again, I have to really return
19 to the industry sectors. If you go into the
20 automotive OEM sector, what you're seeing here is
21 custom ball bearings being manufactured here in the
22 United States. You are not seeing low price imports
23 from China in that particular sector.

24 If you go into the industrial OEM sector
25 it's a mixed bag. Again, the more technical custom

1 ball bearings are being manufactured in the United
2 States. The lower technical, yes, to a degree, there
3 are shipments from China, but a lot of times those low
4 technical customers are shifting their production to
5 China or to non-subject countries as well.

6 So now you're down to basically the
7 aftermarket sector with predominantly demand and
8 standard ball bearings. There brand is king, and
9 where it's not king then it's price. And there you
10 again see the non-subjects.

11 But analyze the group of companies that
12 wrote this brief. Look at their particular financials
13 and ask the question whether or not they are more
14 vulnerable, and the answer will be no.

15 Look at this group of companies which is
16 predominantly serving the automotive OEM market and
17 industrial which is going through a restructuring here
18 in the United States and they too are not being
19 challenged in the automotive OEM or where they're
20 switching to the more technical industrial OEM
21 production here in the United States, also from the
22 non-subjects.

23 Where the challenge is, of course, is again
24 in the less technical or the standard ball bearings,
25 and they're shifting that production out of the United

1 States, out of the industrial countries otherwise
2 known as Japan, and Western Europe or the subject
3 countries, to Eastern Europe, China, India, Indonesia,
4 other non-subject countries to compete as well.

5 So the industry is not more vulnerable.
6 What you're seeing is a global restructuring, a U.S.
7 restructuring, that actually makes this industry much
8 stronger.

9 CHAIRMAN KOPLAN: Thank you very much.

10 I see two hands up.

11 MR. FULLERTON: Graham Fullerton from Koyo.

12 From an automotive standpoint we generally
13 do not see any competition from Chinese sources at
14 this time.

15 CHAIRMAN KOPLAN: That responded for both of
16 you? Thank you.

17 Commissioner Hillman?

18 COMMISSIONER HILLMAN: Thank you.

19 A number of follow-ups. I may have just
20 heard the answer to one of the questions that I had
21 which is whether anyone has a sense of the size of the
22 gray market in the U.S. for bearings, generally taper,
23 ball or spherical. I thought Mr. Schutzman in essence
24 just said it's evaporated. I wondered whether anybody
25 else wanted to comment on whether you have a sense of

1 how significant the gray markets for bearings is.

2 Mr. Shelley?

3 MR. SHELLEY: We addressed this in the 337
4 case and we put a number in our cert petition to the
5 Supreme Court based on our investigation. For SKF
6 branded bearings alone we estimate that the gray
7 market in the U.S. is about \$100 million a year.

8 COMMISSIONER HILLMAN: Would anyone else
9 want to comment on that? That is for SKF alone.
10 Anyone else have a view on how significant the gray
11 market is?

12 MR. PEACOCK: This is Tom Peacock from Koyo.
13 One comment on the gray market is, again,
14 the automotive sector of the ball bearing industry is
15 one-third or more of the entire market, and it's
16 highly unlikely that any of the automotive consumers
17 will be buying gray market product. That product
18 generally comes in and it is sold without any kind of
19 technical or engineering support. So one thing to
20 keep clear is that would not hit more than one-third
21 of this ball bearing market in the U.S..

22 COMMISSIONER HILLMAN: I appreciate that.

23 Mr. Morgan?

24 MR. MORGAN: Commissioner Hillman, for
25 Singapore I think the answer to that is absolutely

1 zero. There is no gray market in the U.S..

2 COMMISSIONER HILLMAN: I appreciate those
3 responses.

4 If I can then turn, at the very end we were
5 discussing Mr. Greenwald's take on how to look at the
6 data on Chinese prices. This was specifically with
7 respect to the tapered roller bearings and his
8 speculation that the only way I can look at the data
9 was to assume there has been an increase in the price
10 of Chinese tapered roller bearings in the market
11 recently.

12 I wondered for purchasers out there, and
13 again, I'm not sure, I know most of you are speaking
14 about ball bearings, but to the extent that there are
15 those out there that are purchasing tapered roller
16 bearings, whether you would have any view as to
17 whether or not the Chinese product in the tapered side
18 that's being sold in the market is in fact higher
19 priced or whether it has become, if you will, higher
20 value, higher tech.

21 Are we seeing any movement up the value-
22 added chain in terms of the Chinese product that may
23 be available for purchase in the U.S. market?

24 Again, I don't want to -- Go ahead, from the
25 Caterpillar side.

1 MR. HORACK: Commissioner Hillman, this is
2 Greg Horack.

3 First of all, Caterpillar does not import
4 product from China in the tapered roller bearing
5 category. One of the things we would like to state is
6 currently the tapered roller bearing market is
7 experiencing unprecedented levels of demand that no
8 one can keep up with, and it's a seller's market right
9 now.

10 We've heard comments from all of our
11 suppliers that if you won't pay this current price
12 we'll sell it down the street to folks that will pay
13 it.

14 COMMISSIONER HILLMAN: anyone else want to
15 comment?

16 MS. TEFFT: Thank you.

17 Could you clarify to me what timeframe
18 you're looking for?

19 COMMISSIONER HILLMAN: The data that we're
20 looking at obviously is over the last five years, but
21 the specific prices that I believe Mr. Greenwald was
22 referring to was fairly recent, within the last year
23 or year and a half, that he is describing a
24 significant increase in Chinese prices.

25 MS. TEFFT: I would say the increase in the

1 Chinese prices that I've seen have been due to the
2 increase in material surcharges and base prices.

3 I think you had another question about their
4 technology increases as well, and to that I would say
5 they're basically the same as they've been.

6 COMMISSIONER HILLMAN: I appreciate those
7 answers.

8 Although the comment from Mr. Horack has
9 reminded me that the other questions that I wanted to
10 ask a little bit about is on the demand side of
11 things.

12 A number of you have described some of the
13 increase in the import volumes that we have seen
14 recently is very much demand driven, particularly on
15 the tapered side. But I wondered if I could get
16 comments, again, from both the purchasers and from the
17 producers here in the United States as to what you
18 project demand for, again, for tapered, for ball and
19 for spherical. I realize you're not all in all of
20 those products, in the next year or two. How do you
21 see demand in the U.S. market for each of the bearing
22 products that we're looking at?

23 Ms. Tefft?

24 MS. TEFFT: There was a comment earlier this
25 morning from the Timken side about the heavy duty

1 market class eight vehicles which is the market I'm
2 in, and they stated without any, they said next year
3 is going to be a decrease, which is very true. But
4 what we see happening is it's a very cyclical market
5 and the last three years have been on the rise. That
6 will happen again starting in 2008, up to the new
7 regulations for emissions that will go into effect in
8 2010. So again, we'll go through a downturn in 2007,
9 and then an up-rise in 2008, 2009 and 2010.

10 COMMISSIONER HILLMAN: If there is something
11 you would keep in the ordinary course of your business
12 that would show us those projections in terms of any
13 kinds of numbers attached to it, if those could be
14 added in any post-hearing submission, I know we'd be
15 very grateful for it.

16 Are there other comments on projections of
17 demand for any of these bearing sectors?

18 MR. HORACK: Greg Horack, Caterpillar again.
19 When you look at the demand side of the
20 market, Caterpillar is projecting for our products
21 nothing but strong demand out through year 2010. If
22 you'd like some specific information we'd be more than
23 glad to provide some of that in the post-hearing
24 brief, but we do not see any weakening in the demand
25 side.

1 COMMISSIONER HILLMAN: And that would affect
2 tapered, spherical and ball? Or would it be largely
3 affecting the demand for ball bearings?

4 MR. HORACK: Caterpillar's overall business
5 is projected to continue to grow. The reason that's
6 significant is because of the fact that Caterpillar
7 has been on allocation for certain products that we're
8 discussing since late 2003 or early 2004.

9 COMMISSIONER HILLMAN: Again, I would thank
10 you very much and appreciate what you can put in the
11 post-hearing.

12 If you can translate that at all into
13 relative demand in terms of portions that would affect
14 the ball bearing side versus spherical versus tapered,
15 that would be extremely helpful if that's possible.

16 Others?

17 MR. HOLDER: Glen Holder from Delphi.

18 In the U.S. market we don't see a change
19 coming in the tapered roller bearings in what we're
20 presently buying today. We do not import any Chinese
21 tapered roller bearings today for automotive use.

22 COMMISSIONER HILLMAN: Most people have
23 described the demand on the tapered side as at a peak,
24 all time high, very high, however you want to
25 describe it, way up there. You're saying it's going

1 to stay up at those very high levels?

2 MR. HOLDER: It's going to remain where it
3 is today. I don't see it growing or coming back down
4 from where it is today.

5 Of course this is all dependent on the
6 automotive manufacturing sales that are going on.

7 COMMISSIONER HILLMAN: Others?

8 MR. EICH: Pete Eich.

9 I think as you look at this all-time peak
10 and then a drop in '07, it's only the heavy duty truck
11 market that we're really looking to come down in 2007
12 and then rebounding 2008 and 2009. All other sectors
13 look pretty strong.

14 MR. KLETT: Commissioner Hillman, this is
15 Dan Klett. With regard to the heavy duty truck
16 sector, although demand is projected to decline,
17 Timken said that that capacity can be shifted and will
18 be shifted to industrial bearings where demand is
19 strong. So essentially the demand decline for
20 bearings due to heavy duty truck decline is going to
21 be totally offset by using that capacity because of
22 strong demand for other industrial markets.

23 COMMISSIONER HILLMAN: Those of you that are
24 largely in the auto sector, what would be your sense
25 of demand?

1 MR. ROUSE: This is Tom Rouse.

2 I think on the automotive side we can see a
3 fairly stable but small growth over the coming years,
4 but really what impacts the demand on our side is our
5 mix of business based on the automakers. There's
6 certainly a shift in market share that has been going
7 on and we project will continue to go on as some of
8 the traditional big three, specifically GM and Ford,
9 have lost market share and we expect that they will
10 continue to lose market share.

11 So for NSK we have a good mix of business.
12 We're strong with automakers who are gaining shares.
13 So we see growth on our side, but overall in the
14 marketplace we see relatively stable, but some small
15 growth in total.

16 COMMISSIONER HILLMAN: Anyone else?

17 MR. BERGQVIST: Mr. Bergqvist.

18 We are also players in the automotive
19 industry. We are bigger on the big three than on the
20 car companies that are gaining market share, so we
21 have seen a fairly less development over a couple of
22 years and we expect that to be I would say our best,
23 depending on how these companies will continue to lose
24 market share. If that continues there could be a
25 reduction in that volume. But on the other hand the

1 industrial business, we are right now in a fairly good
2 business cycle. There are indications that we haven't
3 come to the end of interest rate increases yet. So
4 the industries, the sectors that are fairly late in
5 the business, we expect to continue to grow for the
6 next couple of years.

7 COMMISSIONER HILLMAN: I appreciate the
8 responses.

9 Given that the light has come on I'll wait
10 until the next round of questions.

11 Thank you, Mr. Chairman.

12 CHAIRMAN KOPLAN: Thank you.

13 Commissioner Lane?

14 COMMISSIONER LANE: I need a clarification.
15 The witness from Caterpillar, and I'm sorry I forget
16 your name and I can't see -- I can see the sign but I
17 can't read it now.

18 MR. HORACK: Mr. Horack.

19 COMMISSIONER LANE: Thank you.

20 You said that the demand for tapered roller
21 bearings was at an all time high and you didn't expect
22 to see that go down or increase any time soon.

23 In looking at the information that I have,
24 it looks to me like the production of tapered roller
25 bearings has gone down slightly. Would you mind

1 explaining to me if there is a variance in the data in
2 the staff report and what you find actually happening?

3 MR. HORACK: Relative to the demand for
4 Caterpillar product which would be on the larger size
5 in the industrial market? Which would be a little bit
6 different than the heavy truck market?

7 COMMISSIONER LANE: You're talking about the
8 tapered roller bearings just for Caterpillar.

9 MR. HORACK: Correct. And our demand is
10 projected to increase over the next five years.

11 COMMISSIONER LANE: Thank you.

12 Now I have two legal questions. First of
13 all, Mr. Jaffe.

14 In your pre-hearing brief you addressed the
15 first prong of the discretionary cumulation inquiry no
16 discernable impact, but what about the second prong?
17 What is your best evidence that there is no reasonable
18 overlap in competition between imports from the United
19 Kingdom and imports from other subject countries?

20 MR. JAFFE: Matthew Jaffe.

21 This was limited, of course, just to the
22 NSK-Europe brief that was filed with regard to the
23 United Kingdom. There basically what we see is,
24 again, very similar to what we see in the United
25 States, a huge change in the rationalization of

1 production such that there has, for example in NSK
2 Europe, they have shifted out of basically making
3 again, the standard ball bearing, the less technical
4 ball bearing, and now are manufacturing a considerably
5 more technical bearing primarily based for the
6 automotive market, and that is the automotive market
7 for the home market.

8 I think we've heard a lot of testimony today
9 about how the precision of each thing, of each of
10 those types of bearings, and that is geared
11 specifically for the home market, which is the
12 European Union. So I think in that particular
13 situation we have firm evidence that certainly with
14 respect to NSK Europe and that particular producer,
15 we're not going to have an overlap of competition
16 between what is being sold here in the United States
17 in the automotive OEM market.

18 COMMISSIONER LANE: Thank you.

19 Mr. Morgan, what is your best evidence
20 subject imports from Singapore are not likely to have
21 a discernable adverse impact on the domestic industry?
22 And what is your best evidence that there is no
23 reasonable overlap in competition between imports from
24 Singapore and imports from the other subject
25 countries?

1 MR. MORGAN: Thank you, Commissioner Lane.

2 The way we've argued no discernable adverse
3 impact was we wrapped a lot of the discussion into our
4 overall argument about no correlation with industry to
5 the domestic industry. I know the Commission applies
6 a high standard.

7 I think the one fact that's standing in the
8 way of an accurate evaluation of the likelihood of
9 discernible adverse impact is what the so-called size
10 of the Singapore industry is.

11 Mr. Stewart alluded to the fact that it was
12 half a billion dollars. My clients would be very
13 happy to know that because they're the only producers
14 in Singapore of subject ball bearings.

15 The problem you get from the official custom
16 Singapore export statistics, is that Singapore is a
17 significant re-exporter of merchandise that passes
18 through it from other countries in Asia, so it's not
19 necessarily subject ball bearings that are produced in
20 Singapore that are reflected in the Singapore export
21 statistics. So it hugely overstates the size of the
22 Singapore industry.

23 Now this isn't a problem for the Commission
24 because you have questionnaire responses that account
25 for 100 percent of subject ball bearing production in

1 Singapore, so you have the actual numbers and we've
2 cited to those. When you look at the total share that
3 they can conceivably account for of U.S. apparent
4 consumption, if they were to cease all shipments to
5 every other market in the world, it's a small number,
6 it's confidential because it's based on the
7 questionnaire responses. A very small number and I
8 think that is part of the discernible adverse impact.
9 If you look at what the Commission looked at in the
10 first review with respect to Sweden and Romania, we've
11 had declines in our market share, very significant
12 declines in our market share, despite dumping rates
13 that were at two percent throughout most of the
14 period.

15 We've had a declining normal duty rate
16 because of the Singapore-U.S. free trade agreement.
17 Our actual normal duty rate of nine percent went down
18 and you still had dramatic declines. Those are based
19 on conditions of competition that aren't likely to
20 change, i.e. China ball bearing imports that are not
21 subject to order.

22 Then with respect to the other cumulation,
23 the normal cumulation prong that the Commission
24 considers reasonable overlap, we haven't argued that
25 because again we know the Commission applies a very

1 stringent standard. But what we did argue was that
2 the other considerations that the Commission takes
3 into account which are usually based on trends,
4 support decumulating Singapore.

5 In this case if you look at the value of
6 Singapore imports and the trend over the period, it is
7 different than other subject countries in the review.
8 We've also pointed to a number of other factors in our
9 brief such as NHBB, for instance, is a U.S. producer
10 of aerospace bearings and medical bearings. It
11 markets and sells those as NHBB bearings. Those are
12 not NMB bearings. Those are New Hampshire Ball
13 Bearings. So we operate a little bit differently than
14 the other subject countries vis-a-vis our U.S.
15 affiliate.

16 Then if you look at the AUVs significantly
17 different, were almost all in 9 to 30 millimeter outer
18 diameter size range. That's not just something we've
19 chosen to import, that's the way our operation is
20 structured. It's Nippon Miniature Bearings. So the
21 production capability for the company is limited to
22 that size range so revocation would not change that.

23 Then when you look at that size range of
24 non-precision bearings in the U.S., the U.S. as a
25 value of total shipments, this is public, 1.4 percent

1 in 2005. That's based on census data.

2 So it is our position there is absolutely no
3 way that Singapore could have a discernible adverse
4 impact and if you do decumulate, as we urge you to do,
5 there is absolutely no way that Singapore could cause
6 material injury to the domestic industry as a whole.
7 There just isn't the overlap with domestic
8 competition.

9 COMMISSIONER LANE: Thank you.

10 Mr. Chairman, that's all I have.

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

13 COMMISSIONER PEARSON: Just a quick one for
14 the economic consultants who are here. This would be
15 more for post-hearing than now.

16 The economic consultant for the parties that
17 support continuation has presented an economic
18 analysis that shows, as I understand it, large
19 negative effects on their interests if the orders
20 would be revoked.

21 Have you had a chance to look at that?
22 Could you advise in post-hearing whether you agree
23 with those conclusion or whether you disagree, and if
24 you disagree explain why?

25 MR. BUTTON: We'd be happy to.

1 MR. KLETT: We will do so too.

2 COMMISSIONER PEARSON: And you probably will
3 see something somewhat differently?

4 MR. KLETT: I think the basic assumption in
5 his model is that subject imports are going to
6 increase by I think under one scenario 100 percent,
7 and in another scenario 50 percent. There's no basis
8 empirically to support those assumptions. The results
9 pretty much flow from that.

10 I think from what you've heard today the
11 orders pretty much on administrative cost for the
12 importers, but these are orders that have been in
13 place for over 15 years. The industry here before you
14 now has made significant structural changes. You see
15 wide variations in the dumping duty rates without wide
16 variations in imports. As Dr. Kaplan said earlier
17 today, what you need to do is figure out what is your
18 equilibrium.

19 You already have the equilibrium. In other
20 words, these people here have adjusted to the orders.
21 The imports you see coming in now are what you're
22 going to see, even if you revoke the orders. There's
23 not going to be a 50 percent or a 100 percent increase
24 in subject imports.

25 MR. BUTTON: I would simply add that I note

1 with a touch of irony that the Timken side described
2 these increases that you've mentioned to be modest
3 increases in imports, and perhaps that's something of
4 an overstatement on their part.

5 Additionally the results shown are I think
6 to be viewed as somewhat counter-intuitive by many in
7 the audience as, I won't get into APO numbers there,
8 but I can mention the trend, they showed the subject
9 imports here taking market share basically away from
10 China in the United States. It does seem to fail to
11 recognize much of the commentary today with the fact
12 that there do exist three industry sectors where
13 conditions of competition in the automotive OEM sector
14 are quite different from those in other sectors. I'd
15 have to describe the modeling exercise as something of
16 an economic blunt instrument.

17 COMMISSIONER PEARSON: Thank you. I'll look
18 forward to your written submissions.

19 At some hearings I try to ask a question of
20 every witness.

21 (Laughter).

22 CHAIRMAN KOPLAN: Oh, my.

23 COMMISSIONER PEARSON: I trust that no one
24 will be terribly offended if I don't do that today.

25 Rather, let me just conclude by saying that

1 it's been an honor to have so much expertise and
2 experience in front of us today, both the morning and
3 afternoon panels. I appreciate the seriousness of
4 these issues and the importance to your businesses,
5 and I just want to thank you for being here.

6 Mr. Chairman, I have no further questions.

7 CHAIRMAN KOPLAN: Thank you, Commissioner.

8 I think I'm up.

9 Mr. Greenwald, could you for the post-
10 hearing supply me with your best estimate of the share
11 of total sales in 2005 that were made to U.S.
12 customers that required either company or product
13 certification? If you could do that by subject
14 company I'd appreciate it, and if you could include
15 documentation that's available I'd appreciate that
16 with your estimates.

17 MR. GREENWALD: Yes.

18 CHAIRMAN KOPLAN: Thank you.

19 Staying with you, on page 13 of your pre-
20 hearing brief and I'm just going to take an excerpt
21 from it. You make the point, you say that the point
22 in the future that Chinese producers of subject TRBs
23 may become qualified to shift significant volumes of
24 TRBs to important accounts supplied by Timken is not
25 reasonably foreseeable. On the other hand, the

1 domestic parties argue that direct competition is
2 already taking place in their pre-hearing brief on
3 pages 65 to 67.

4 I'm wondering how do you respond to their
5 argument regarding China's ongoing TRB investments in
6 general and what can you tell me specifically about
7 your client's investment?

8 If you could, when you respond, assume the
9 prices in the U.S. remain higher than in Asian
10 markets.

11 If you would prefer to do that post-hearing,
12 you're welcome to. If you want to answer that now,
13 you're welcome to do that.

14 MR. GREENWALD: Let me if I may answer a bit
15 now and then address the rest in the post-conference
16 brief.

17 CHAIRMAN KOPLAN: Good.

18 MR. GREENWALD: The claim that there is
19 competition now between subject imports and Timken
20 TRBs to any significant degree is simply disproved by
21 the facts. We try and lay them out. You have the
22 volume of imports, you have purchaser specific
23 questionnaire responses which we have tabulated. You
24 have pricing data where obviously you look at
25 correlations in price trends to try and figure out if

1 on wanted nominally a standard part, Chinese pricing
2 appears to influence domestic producer pricing. So
3 there are various tests that you can look at right
4 now. And I submit to you that the proof on every one
5 of those is that competition does not exist.

6 Now it is true that this morning I heard
7 these general statements that China competes with us,
8 that there is a China price out there that somehow is
9 influencing customers at which Chinese producers are
10 not qualified.

11 What I'd urge you to do is distinguish
12 between these assertions that are not grounded in
13 evidence on this record, and the evidence that we have
14 proposed you look at on the current competition --

15 CHAIRMAN KOPLAN: Let me just jump in for a
16 second. I probably should have added.

17 When I referred you to pages 65 to 67, on
18 those pages they provide a list of ongoing and planned
19 projects including projections for the related amounts
20 of investment to expand or upgrade TRB production
21 facilities in China. Those investment projects
22 include TRBs designed for cars and trucks and a 158.3
23 million yen, which I guess translates into \$19.1
24 million, investment for car bearings by your client,
25 ZhiZhang Wanxiang Group.

1 That's why I was directing you to those
2 pages.

3 MR. GREENWALD: That's a fair point, and
4 what they are saying there is trying to lend muscle to
5 this what I believe to be a very flabby claim, that
6 the future holds a prospect, sometime in the
7 foreseeable future China will qualify, China will
8 expand and China will be in this U.S. market. The
9 basic point that I am making and I believe the facts
10 support, is at that point in time, if it were to
11 arrive, is not reasonably foreseeable on these facts.

12 Let me turn to the specific example --

13 CHAIRMAN KOPLAN: Let me stop you for a
14 second. Do you dispute the projects that they claim?

15 MR. GREENWALD: No, no, not at all.

16 CHAIRMAN KOPLAN: By the investment amounts
17 or anything?

18 MR. GREENWALD: No, no. It is perfectly
19 clear that China is, that the Chinese industry is
20 investing, and it's perfectly clear frankly, that
21 Timken is at the forefront.

22 Let me make a point that I said in the
23 direct testimony that may have been missed. Timken is
24 the largest producer of tapered roller bearings in
25 China. Timken is, I believe, the fastest growing

1 producer of tapered roller bearings in China. And
2 Timken's investment in plant and equipment dwarfs the
3 investment in plant and equipment that I believe
4 you're talking about, although I'll have to get you
5 specifics in the post-conference brief.

6 The question is, where is this investment
7 going? What market is it supposed to serve? IN the
8 last sunset review this Commission concluded that
9 there was an export orientation on the part of the
10 Chinese industry and also concluded that the United
11 States market was a major market, a major target of
12 that export orientation.

13 In our pre-hearing brief we have given you
14 statistics that one is public on the percent of
15 Chinese output by value that's sold in the home
16 market. Then we did an adjustment to it which we
17 think is relevant.

18 The basic point is that the Chinese market,
19 the Chinese home market, which everybody concedes is
20 growing at an enormous pace is going to absorb most of
21 the capacity.

22 The second question becomes if it doesn't
23 all go to the Chinese market where is it going to go?
24 The answer there is, I believe, non-U.S. markets. We
25 had an exchanges with Commissioner Aranoff about unit

1 values and what do they suggest.

2 What we've said in our brief and I will say
3 here, is that on the facts before you there is almost
4 zero, zero economic incentive, for the Chinese
5 industry to abandon higher value markets, whether it's
6 in China or third countries, for lower sort of low end
7 commodity type markets in the U.S..

8 The Chinese are not qualified at major U.S.
9 accounts. I cannot say to you that in three years
10 they won't be, but I can't say they will be. I don't
11 know.

12 What I can say to you is on the record that
13 you have before you, there is no basis that you can
14 extrapolate from the evidence to suggest that the
15 competition that Timken fears, and I believe the fear
16 is genuine, the competition that Timken fears will be
17 realized, in any particular timeframe --

18 CHAIRMAN KOPLAN: Mr. Greenwald, I want to
19 leave you a little bit of time for your post-hearing.
20 You're going to add to that, right? And I still have
21 a couple of questions left.

22 I think I know where you're going with it,
23 but I'll look forward to what you might submit in
24 addition, so I don't want to leave these other folks
25 out.

1 MR. GREENWALD: Sorry.

2 CHAIRMAN KOPLAN: Thanks.

3 Let me come to Mr. Schutzman and Mr. Jaffe
4 if I could. And you can do this for the post-hearing.

5 On pages 14 and 15 of the domestic
6 industry's brief they state that, and I'm quoting
7 this, "Subject countries remain export dependent and
8 have actually increased their total exports of ball
9 bearings over the period of review. Collectively and
10 individually subject countries have increased their
11 exports of ball bearings over the period based on
12 public trade data included in the public staff report.

13 Combined total ball bearing exports from the
14 subject countries have increased by over \$1 billion
15 since the year 2000."

16 That's the end of the quote.

17 Now by 2005 their exports of ball bearings
18 to the world were over 50 percent of U.S. consumption.

19 On page 16 the domestic industry is brief
20 asserts that the record evidences the demonstrated
21 ability of producers in the subject countries to shift
22 and/or increase their exports among markets when
23 conditions so warrant.

24 Would you respond to that in your post-
25 hearing submission?

1 MR. SCHUTZMAN: We will respond to that in
2 our post-hearing brief.

3 CHAIRMAN KOPLAN: Thank you.

4 MR. JAFFE: Mr. Jaffe.

5 We will respond as well, except I would just
6 note here that the home market for many of these
7 producers, for example in Europe, a UK producer is the
8 European Union so if it sold something from the UK and
9 went to Germany or Germany to France, that would be
10 considered an export when really it's actually a home
11 market sale or regional sale.

12 Same thing in Japan. They have a focus on
13 the Asian region. So again, it might show as an
14 export but it's really to its regional market.

15 So I think it's deceptive to look at these
16 exports and claim that because there's export shifting
17 among home market environments, among the regional
18 markets, that that means you're going to have shifting
19 to the United States. But we'll respond to that more
20 in the post-hearing submission.

21 CHAIRMAN KOPLAN: Thank you.

22 I have one last request for the post-
23 hearing. This came up this morning.

24 Will you provide information as to the
25 extent that the March 21, 2006 Defense Federal

1 Acquisition Regulation supplement entitled Acquisition
2 of Ball and Roller Bearings Rule, will make it easier
3 for each of your subject countries to export subject
4 product to the U.S.? If you could address this
5 question to each subject country separately in the
6 post-hearing. Will you do that for me?

7 MR. JAFFE: We'll do our best.

8 CHAIRMAN KOPLAN: Thank you very much.

9 With that I have no additional questions.
10 I'll turn to Commissioner Hillman.

11 COMMISSIONER HILLMAN: Thank you.

12 If I could turn just lastly, I guess, to the
13 issue of pricing. As you know one of the key things
14 the Commission has to comment on in any sunset review
15 is what we make of what is likely to happen in terms
16 of price effects.

17 Let me start with asking those of you both
18 on the selling side and on the buying side of this to
19 comment on the testimony from this morning. As I
20 heard it, those in favor of keeping the orders in
21 place are saying that at latest with respect to the
22 OEM market they're describing a negotiation over
23 prices in which frequently, often, almost always from
24 their testimony, foreign price competition is brought
25 into the negotiation as a way of saying I want you to

1 bring your prices down because I can get a comparable
2 bearing from X other place at Y price; but that on the
3 distributor after market side it is largely a list and
4 those prices are exchanged once or twice a year.

5 I wondered if, again, from both the selling
6 and the buying side of it, if you could comment from
7 your perspective on how you see price competition
8 occurring in the market, and would you agree with the
9 description that the Petitioners gave this morning in
10 terms of how prices get set in the OEM and the after
11 market.

12 Go ahead, Mr. Bergqvist.

13 MR. BERGQVIST: Mr. Bergqvist.

14 The description they gave is not totally
15 wrong, it's not completely right either, because as we
16 have discussed price is not the only reason to decide
17 who a customer is going to purchase from. There are
18 other values the customer can provide.

19 One example is this car hub unit that showed
20 up this morning where SKF took an order and we are
21 going to deliver that out of Italy. This is a very
22 special case. It's a product designed for a high
23 performance vehicle. The reason to go to SKF is that
24 we could out of our prototype facility in Italy fairly
25 quickly come up with a solution to the problem that

1 the customer had.

2 As it is such a high performance vehicle, it
3 is not a hub unit that is going to be manufactured in
4 any significant volumes. That's why we made the
5 decision that we could source it from Italy and we
6 have our R&D facility in Italy and that's why we
7 developed in our prototype shop.

8 So that shows that, I would honestly say
9 that I don't think that price was part of that
10 decision.

11 Then we have on the aftermarket business,
12 and we have pointed out several times that brand
13 recognition is very important. When people want to
14 replace a bearing and if they are of a more standard
15 character that you can find in a catalog, there's a
16 fairly higher likelihood that an SKF bearing in an
17 application will be replaced with another SKF bearing.

18 So there are other factors that play in the
19 decision about who is going to supply.

20 COMMISSIONER HILLMAN: Okay. On the
21 purchasing side. Any of those back there that are
22 buying bearings, can you tell me how if at all you use
23 prices from one supplier to try to push down prices
24 from another supplier? How do you see price
25 competition occurring?

1 Ms. Tefft?

2 MS. TEFFT: This morning there was a comment
3 about prudent business decisions and Timken was basing
4 that on their move to China. It's also very important
5 for us not only to have the four criteria of sourcing
6 which are quality and delivery and those things, but
7 price also enters into the market.

8 I would welcome a decision where I had to
9 look at a domestic supplier, but quite frankly there
10 is no domestic supplier bidding on my business today
11 in ball bearings.

12 So my competition is all overseas. When
13 looking at that, all of my four criteria remaining
14 equal, it will come down to who develops the best
15 price for me and who can be the most strategic
16 supplier for my business. In those respects, that's
17 what we will look at going forward, but it will not be
18 based on whether or not the competition is domestic or
19 foreign because we don't have anyone bidding on our
20 business today that's going to affect it.

21 COMMISSIONER HILLMAN: Mr. Horack?

22 MR. HORACK: In the Caterpillar industry our
23 view on that is you have to be very careful. Back to
24 the qualification, the certification that we demand
25 for our applications, when you start looking at, I'm

1 going to call it outside information so to speak, you
2 could find yourself comparing an apple to an orange.
3 Just like the example that was stated earlier today
4 with the bearings that were laid up on your desk, they
5 look the same but they aren't.

6 So if we used information comparing bearing
7 A to bearing B, don't know that you have comparable
8 product. So we avoid that in all cases.

9 COMMISSIONER HILLMAN: I'm assuming at some
10 point for some products there are comparable products
11 on the market. Maybe not, but I think it's a little
12 unrealistic to say that there are no bearings being
13 sold on the market where there is, in fairness, an
14 apples to apples comparison.

15 So to the extent that not every single
16 bearing you're purchasing is this unique one-off item,
17 and I'm just trying to make sure I understand, from
18 your perspective when and how do you see price
19 competition? Whether it's domestic to domestic,
20 foreign to domestic, foreign to foreign? How do you
21 see price competition entering into the negotiations
22 on the OEM and industrial side versus on the
23 aftermarket side?

24 You're not in the aftermarket side, but for
25 those that are, or I don't know whether there's anyone

1 else that has a comment on this.

2 MR. HORACK: Relative to our internal
3 requirements which would not include the distribution
4 side of the market, Caterpillar's position is, like I
5 stated, if we have a product that has been qualified
6 by more than one source, then you have an apples and
7 apples comparison. But we have that on so few
8 products that it's limited to two or maybe three folks
9 in the room, and it's not an option for us to use data
10 from call it emerging market countries in those
11 comparisons because we don't know that we have an
12 apples and apples comparison.

13 COMMISSIONER HILLMAN: So you're saying you
14 would never use a quote from someone else in any way
15 in a price negotiation with a different supplier?
16 Never do it.

17 MR. HORACK: Not from a non-certified
18 approved supplier.

19 COMMISSIONER HILLMAN: But if you're dealing
20 in the realm of the certified suppliers?

21 MR. HORACK: We absolutely would use that
22 information as a piece of the criteria. Back to the
23 comments earlier that quality, delivery, technical
24 support take precedence over price.

25 COMMISSIONER HILLMAN: Mr. Eich?

1 MR. EICH: I think one thing that hasn't
2 been mentioned today is the high cost of qualifying a
3 second bearing source. You could be talking about
4 several hundred thousand dollars to qualify that
5 second guy to supply. So after you've gone through
6 qualifying that first supplier, it's unlikely you're
7 going to go to a second supplier unless there is a
8 very large gap as well as a high confidence level in
9 that second supplier.

10 COMMISSIONER HILLMAN: Then if we look more
11 broadly, the Commission obviously in trying to decide
12 what's going to happen to --

13 CHAIRMAN KOPLAN: Excuse me. I think there
14 was a hand up.

15 COMMISSIONER HILLMAN: Oh. Excuse me. In
16 the back, I didn't see it.

17 Go ahead.

18 MR. HOOSER: Dave Hooser speaking.

19 With regards to the aftermarket as I stated
20 before in my statement, brand recognition is very
21 important and the end user will call a distributor and
22 specify many many times, not all the time but most
23 times, what brand they want. When it comes to
24 expensive bearings in steel mills, paper mills, in
25 some cases machine tool applications, they most

1 certainly have a brand preference. In order to change
2 that brand preference, in order for the distributor to
3 do that, the process may be very similar to the OEM
4 process that we're talking about with the Eaton,
5 Caterpillar and John Deere people, because you have to
6 put bearings on trial and make sure that they'll
7 perform in critical applications.

8 There are transactions where there are price
9 deviations when there are extremely huge orders. Then
10 the price sheets aren't used, it's a quoted basis.

11 Then there are other transactions that
12 happen with customers who are generally smaller and
13 very price oriented and don't care about the product
14 that they get which may come from emerging market
15 manufacturers.

16 COMMISSIONER HILLMAN: I appreciate those
17 answers. Thank you.

18 Just another follow up, again staying on
19 this price issue. You heard the testimony this morning
20 from the domestic industry that the prices in the U.S.
21 market, as they put it, are less depressed than those
22 in the rest of the world.

23 I'm wondering if I can get a response from
24 again, either the producers here or the purchasers, as
25 to what your sense is of where U.S. prices are vis-a-

1 vis prices in the rest of the world for these types of
2 bearings. Are we the high priced market at this point
3 in time for the products that you either produce or
4 purchase?

5 MR. ROUSE: Mr. Rouse speaking.

6 My perspective is certainly in the
7 automotive industry that pricing is aggressive in our
8 marketplace but it's not less depressed than in other
9 markets. If you compare apples to apples I think the
10 pricing is comparable with the industrialized markets
11 overseas, so I don't see a price discrepancy in our
12 market in automotive versus other markets.

13 COMMISSIONER HILLMAN: You're saying it's
14 the same. Not higher, not lower --

15 MR. ROUSE: Same basic level. There are
16 some product lines where there are some structural
17 differences in cost and that impacts the pricing
18 levels across the board for all of our competitors as
19 well, but overall I think it's comparable price levels
20 in the industrialized markets. I don't see less
21 depressed pricing here in the automotive side.

22 COMMISSIONER HILLMAN: Others?

23 Ms. Tefft?

24 MS. TEFFT: Just one comment on the high
25 capacity issues last year with tapered roller

1 bearings. When having to resource from those who
2 could not support us, we did find that the prices for
3 the other big six in the industry were higher cost
4 because of, probably because of the capacity issues
5 and known constraints, and they were able to charge
6 more for what we wanted.

7 COMMISSIONER HILLMAN: I see some nodding of
8 heads.

9 Mr. Bergqvist?

10 MR. BERGQVIST: My impression is that the
11 U.S. is a very competitive market, but when you make a
12 comparison like this you also have to look over a
13 longer time period because currency is an issue.
14 Domestic markets do not change price levels when the
15 currency relations move over time.

16 Right now we have a situation where the U.S.
17 dollar is a little bit weak, so if you make the
18 calculation today you might find that the price levels
19 are maybe a little bit depressed, but if you make the
20 same calculation with other currency rates you will
21 get a different answer.

22 COMMISSIONER HILLMAN: And I'm wondering for
23 counsel or for any of the economic consultants,
24 whether there is any additional data or data sources
25 that you could point us to that would help us make

1 these price comparisons. I understand all of the
2 issues that you're raising about whether we in fact
3 can find good apples to apples comparisons, but is
4 there additional data out there that we should be
5 looking at?

6 MR. BUTTON: We will take a look and see if
7 we can find something that might be helpful to you.

8 COMMISSIONER HILLMAN: Okay. The last
9 question is another data question, and the same one I
10 put to the Petitioners this morning, whether you're
11 aware of any additional data on global production.
12 We're very well aware of a lot of the issues connected
13 to looking at the capacity data and all of the
14 squishiness that is found in capacity data
15 particularly in this industry.

16 Are you aware of any additional data sources
17 that would point us to better numbers on global
18 production of bearings? Like I said, we're aware of a
19 particular group, the Fredonia Group, that does do
20 some of this. I don't know whether you all have a
21 copy of this Fredonia Group report and could make it
22 available to us, or if you're aware of other data
23 sources that would help us understand global
24 production of bearings.

25 MR. JAFFE: Matthew Jaffe.

1 We do not know and we do not have a copy of
2 the Fredonia report.

3 COMMISSIONER HILLMAN: Obviously it's not an
4 inexpensive report or we would have gone out there and
5 purchased it. So it's one of those, I'm not even sure
6 we could get it. I think it may be one of these that
7 you have to have subscribed to as a data provider to
8 the group in order to have access to it. But if it is
9 available or could be made available to the Commission
10 we would appreciate it. If not, if there is any other
11 source of data on global production that could be put
12 on the record we'd very much appreciate it.

13 MR. JAFFE: We'll look again and see if we
14 can find anything, but I know this question has been
15 asked of the producers in our group. We've looked
16 there and nobody has an additional report and nobody
17 has anything known as the Freedonia report.

18 COMMISSIONER HILLMAN: Thank you.

19 With that I would join my colleagues in
20 thanking all of you very much for your time, for your
21 attention, for your patience, and for all the good
22 answers to our many questions.

23 Thank you.

24 CHAIRMAN KOPLAN: Thank you.

25 Anything else from the dias?

1 Ms. Mazur, have we covered everything? Do
2 you have some questions before we release the panel?

3 MS. MAZUR: Mr. Chairman, no. I think staff
4 has no questions.

5 CHAIRMAN KOPLAN: All right, thank you.

6 Mr. Stewart, you're shaking your head in the
7 negative.

8 MR. STEWART: No questions.

9 CHAIRMAN KOPLAN: Well with that, I want to
10 thank you very much for your testimony this afternoon
11 and this evening.

12 Thank you very much. We appreciate those of
13 you who came a great distance to be with us. It's
14 been extremely helpful, and I join my colleagues in
15 saying that I thought both sides did an excellent
16 presentation today.

17 With that, the panel is released and we will
18 move forward to rebuttal and closing.

19 I will announce what's left.

20 I'm having trouble reading your handwriting,
21 Madame Secretary. Those in support of continuation,
22 is that nine or 19 that I'm looking at? It looks like
23 a nine.

24 MS. ABBOTT: It's 19, Mr. Chairman.

25 CHAIRMAN KOPLAN: Nineteen. Wrong answer.

1 (Laughter).

2 Mr. Stewart, you have 19 minutes remaining
3 from your direct presentation, plus your five minutes
4 for closing. How would you like to use that?

5 (Pause).

6 While we're waiting, those in opposition
7 have a total of three minutes remaining from their
8 direct presentation. Mr. Greenwald had two minutes
9 left on his and Mr. Jaffe had one minute left on his
10 for rebuttal.

11 We'll do rebuttal, and then we'll go to
12 closings.

13 (Pause).

14 Mr. Stewart, it looks like that 19 minutes
15 wasn't by accident.

16 MR. STEWART: Thank you, Mr. Chairman. I'm
17 ready to start if it's convenient.

18 CHAIRMAN KOPLAN: Proceed.

19 MR. STEWART: Thank you very much.

20 First I'd like to start by thanking both the
21 witnesses who have come for the other side to testify
22 to give you as complete a record as possible. Many of
23 them are obviously good customers of the folks that we
24 represent. Some of them are employers of the people
25 we represent. But what you heard today and this

1 afternoon was a fairly fascinating story. From some
2 there was the suggestion that instead of looking at
3 U.S. law you should construe a global structure that
4 you should be deciding whether or not the order should
5 be continued. And as is usually the case in one of
6 these sunset reviews, you had in a case such as ball
7 bearings where there is a massive decline, you had
8 some very creative arguments about how you slice and
9 dice the market to try to make all of the bad things
10 that have happened to the domestic industry go away,
11 and remarkably turn an industry that has declined by
12 about a quarter into a robust, vibrant industry, I
13 think was the term I heard.

14 What I would suggest is that none of those
15 are appropriate under the statutory standard, and that
16 in fact when you look at the industry as you must as
17 the ball bearing industry or as the tapered roller
18 bearing industry or the spherical plain bearing
19 industry, that the record the staff has put together
20 and the facts that the staff has compiled should be an
21 easy guide.

22 There were some issues such as price that I
23 had suggested that the sources of the information you
24 needed would be sitting in front of you this
25 afternoon, and not surprisingly, none of them offered

1 to provide the information that was readily in their
2 possession.

3 There were questions about the information
4 supplied by those in support of continuation of the
5 orders, yet what was supplied was price lists from the
6 foreign companies in the foreign countries -- Europe,
7 Japan, Mexico, Canada -- for all of the major players
8 with affidavits as to the discount rates.

9 So you heard arguments that no, there
10 weren't any, you couldn't use the price list because
11 the price list had discounts. True. Who knows what
12 the actual discounts are? The people who are in front
13 of you. Who gave you affidavits as to what our
14 understanding of those discount rates are? We did.

15 Massive amounts of information that could
16 help you in the search for understanding why this
17 market has higher prices or is deemed to have higher
18 prices by distributors and many OEM customers. That
19 hasn't been provided. Rather, confusion was created
20 that there wasn't actually any information you could
21 look to to find the fact that there are higher prices
22 in the United States market.

23 Even though all of these companies sell in
24 Canada, sell in Mexico, the Europeans obviously sell
25 in Europe and the Japanese obviously sell in Japan.

1 So as you step back and you think about what
2 you heard this afternoon, the first thing you ought to
3 ask is where are the facts? Why didn't the people who
4 had the facts come forward? They're in their
5 possession. And since when, as our friend the Chinese
6 counsel so ably tried to present, is it at all
7 relevant what a global company does globally? What is
8 before you is what the condition of a domestic
9 industry is.

10 Timken did not become a global company in
11 1999 much to the surprise, I'm sure of Chinese
12 counsel. Timken was a global company at the beginning
13 of its existence or shortly thereafter, so the fact
14 that it has global operations is nothing new, as it's
15 not new for SKF, as it's not new for the vast majority
16 of companies who come before you who have sought
17 relief and have obtained relief.

18 With that I'd like to go to what is in the
19 blue binder. Let's take a look at the custom versus
20 standard.

21 There were so many definitions,
22 contradictory, that, were presented in the last
23 presentation I thought that at latest if we went back
24 to the simple, before we heard the complex definition
25 of the distinctions that existed in the marketplace

1 that it might be helpful to look at what the folks who
2 testified this afternoon say in their published
3 materials.

4 So here's what NTN has in their June 2004
5 Ball and Roller Bearing Catalog. "In North America,"
6 I assume that includes the United States, "as in all
7 our manufacturing facilities we attain maximum
8 efficiency using our automated production equipment
9 and processes to produce quality, high volume,
10 standard bearing sizes. Low volume bearing and sizes
11 are manufactured in a single facility and then
12 exported worldwide according to customer
13 specifications."

14 It must have been a different story we were
15 hearing earlier today. It must have been a different
16 NTN who was testifying.

17 There is a second statement from them and
18 it's roughly the same.

19 Let's go to the third one. From FAG on
20 their Super Precision Bearing Catalog. "Thanks to the
21 high performance standard of the existing product
22 range, specific tailor-made solutions are rarely
23 required.

24 I guess that must have been a different
25 Schaeffler Company than we heard this afternoon.

1 Let's go to Nachi Ball & Roller. Dimensions
2 and accuracies are standardized, ready made products
3 of high quality that are easy to obtain. The FKF web
4 site, currently up unless they've changed it in the
5 last day. Manufacturers and user of roller bearings
6 are for reasons of price, quality, ease of replacement
7 only interested in a limited number of bearing sizes.

8 Experience has shown that the requirements
9 of the vast majority of the bearing applications can
10 be met using bearings with these standardized
11 dimensions.

12 I guess everybody must be in a different
13 business until they came here this afternoon.

14 Are there custom bearings? Sure. Were
15 there custom bearings in 1988? Exactly. What has
16 changed? Nothing has changed. There is competition
17 for custom, there is competition for standard, and
18 when you look at what they offer in their catalogs and
19 what they offer in the country of origin, that is
20 contained in their price list, that is contained in
21 the questionnaire response the Stimson Company
22 provided, you will get a lot of answers as to what
23 products move around the world.

24 Let us go to price sensitivity. Another
25 issue that was contested today.

1 We agree with the statement in the staff
2 report, price competition and the global bearing
3 industry is reportedly intense, particularly with
4 respect to commodity type bearings. Those include
5 ball bearings and tapered bearings.

6 Next, a quote of Mr. Malstrom on behalf of
7 SKF at the last sunset review. My assessment is that
8 yes, the ball bearing and especially the deep groove
9 ball bearing, because there are a lot of types of ball
10 bearings. The deep groove ball bearing is probably the
11 most commoditized, bearing type in the industry. That
12 hasn't changed. It remains true. All these people
13 produce them, it's produced around the world.

14 Next, from the 2003 hearing on the China
15 case on ball bearings, competition for ball bearing
16 sales mainly revolves around prices. Was that what we
17 heard this afternoon? I don't think that's what we
18 heard this afternoon.

19 Then what we did hear from the customers,
20 and yes customers like Caterpillar and others have
21 always had interest in the quality and in service and
22 in customer support, et cetera. But as we explored
23 with Mr. Dykstra in the first sunset review, for the
24 people that they qualify, they meet the quality. They
25 meet the technical support. They meet all of the

1 other issues that get checked off on the questionnaire
2 response as having relevance.

3 So what it comes down to at the end in most
4 situations as Mr. Dkystra admitted the last time, is
5 of course, it comes down to price. And who were we
6 talking about in the ball bearing cases, in the
7 spherical weight bearing cases? Are we talking about
8 people from Eastern Europe? Are we talking about
9 people from developing countries in Asia.

10 Now we're talking about the Japanese
11 producers. We're talking the European producers. The
12 people who are the big six in the world. They all
13 have the quality, they all have the technical support,
14 they all have all of the other issues that customers
15 are looking for. So it comes down to a matter of
16 price. That happens over and over and over, whether
17 it's customer or standard. And the smoke screen that
18 somehow there are differences are simply not supported
19 in terms of what actually happens in the marketplace.
20 Yes, maybe there will be an account where somebody
21 says we can't bid on that price. Maybe we don't have
22 capacity this year, maybe we are unwilling to bid at
23 that price or the price level that we know you're
24 seeking because it is not a profitable price for us.
25 But for the people who compete, whether it's domestic-

1 domestic, domestic-foreign, -- foreign- foreign at a
2 particular account, they are qualified and it comes
3 down to price. This is a price sensitive market and
4 every customer out there is looking for the best value
5 and the best value includes price if people qualify
6 for the other issues.

7 When you look at Singapore, first of all
8 this slide goes to the data that is in the staff
9 report. I've heard the argument of the counsel for
10 Singapore and we'll address that in a post-hearing
11 brief. Let me simply say that there is an apples and
12 oranges comparison that counsel for Singapore
13 establishes which is they're in the 0 to 30 radial
14 ball bearing segment of the market and if you look at
15 the data in the staff report, confidential, public,
16 and you compare it to the data that's available from
17 VMA 35-2 data from the U.S. government and the other
18 U.S. import statistics, you will find that all six
19 producers compete, all six subject countries compete
20 in the 0 to 30. That was a statement of Mr. Sperrazza
21 this morning. And you will find that there is
22 significant share of potential U.S. market for that
23 size range that is accounted for by Singapore.

24 Subject producers in some of the countries
25 that are seeking to have, not be cumulated, are in

1 fact expanding production. We give you some sites
2 from NSK and from INA.

3 On Singapore, one of the interesting issues
4 that the Commission may not be aware of is that NMB
5 Pelmack in fact has operations in both Singapore and
6 Thailand and what has happened over the course of the
7 history of these orders is that the volumes have swung
8 back and forth in part based upon who we covered by
9 the order, who was not covered by the order, as you
10 can see from the graph that is contained there.

11 I'm going to skip over the SKF Italy. We
12 have a confirmation that in fact SKF is supplying
13 that.

14 We're going to go to U.S. prices.

15 In SKF's public pre-hearing brief they say
16 that the dumping margins show prices are higher in
17 Europe. I went through that answer earlier today.
18 It's not accurate according to their price list, their
19 discounts.

20 If they disagree with that, if they think
21 that's wrong, they can do better than this quote.
22 They can give you the prices they sell at. They can
23 tell you the discount they actually do in France and
24 Germany and Italy and the UK.

25 Their statement also is inconsistent with

1 what they have told the Commission and they told the
2 Court of appeals in their 337 case. SKF carefully
3 monitors and adjusts its U.S. pricing levels to ensure
4 they are sufficiently high so there will be no or low
5 dumping margins. What does that sound like? Prices
6 here are higher, prices at home are higher? Prices
7 here are higher.

8 What does the arbitrage that's going on in
9 the gray market tell you? It tells you that the
10 prices at which they are selling to their customers in
11 their home markets are lower than the price at which
12 they're selling here in the U.S. and it is that
13 difference that gets arbitrated and gets sold in that
14 price. That is additional evidence that prices in the
15 U.S. market are higher.

16 You have affidavits from distributors who
17 sell in Canada and in Mexico. You had the testimony
18 today from Mr. Swinehart who sells in Mexico and in
19 Canada in addition to the U.S.. All of them have said
20 that the prices for their products and the
21 distribution of products that they sell, are higher in
22 the U.S. than they are in contiguous countries, Canada
23 and Mexico. Countries that do not have orders.

24 Interchangeability. If you look at the
25 staff report and you look at what importers said, and

1 you take a look at what purchasers said on ball
2 bearings, there is no question. There shouldn't be
3 any question. These products are interchangeable.
4 U.S.O. versus Germany, U.S.O. versus French, U.S.O.
5 versus Japanese.

6 Let's take a look at the SKF claim on
7 interchangeability. "There is a very limited degree
8 of competitive overlap between subject imports and
9 U.S.O. producers. Versus the price list that we
10 provided, which shows that there are 168 of the ball
11 bearing families made in the U.S., shown on the SKF
12 pricelist as made in the U.S., are made by SKF and
13 other facilities around the world including 116 of
14 which are made in one or more of the subject
15 countries.

16 How can there be any question that there is
17 interchangeability of the product?

18 We reproduced the purchaser data on
19 interchangeability which is on its face I think fairly
20 clear.

21 In some of the briefs there is also the
22 claim that production was not shifted here after the
23 orders because of the orders. In fact that's the SKF
24 public pre-hearing brief at 23.

25 Yet you, did a study in 1995 looking at the

1 bearing industry and here's what you said.
2 Antidumping orders on TRBs hasten foreign investment
3 by Koyo and NTN. SKF sped up this transfer of
4 production lines from Sweden and Italy to the United
5 States as a result of the orders. If they had moved
6 production lines to its U.S.O. subsidiary, New
7 Hampshire Ball, thereby bypassing a margin of 106
8 percent.

9 In fact at the time, back in 1989 when the
10 orders went into effect, there were newspaper articles
11 that said production lines had been ripped out of
12 plants in Europe and Japan and flown into the United
13 States to help those companies avoid losing the
14 business because of the dumping orders.

15 So there cannot be any real question as to
16 whether or not volume was moved here. And as
17 questions were asked this afternoon, you are seeing
18 some of that investment de-invest now that there is
19 competition from abroad or people are exiting certain
20 businesses as orders get revoked on other product
21 lines.

22 Now, Chinese quality. One of the most
23 remarkable aspects of these hearings is always to hear
24 counsel for a developing country, a set of producers
25 come in and basically say my guy produces garbage and

1 doesn't compete with anybody. Yet, Chinese tapered
2 roller bearings in 2005, if you look at the U.S.
3 import statistics, accounted for the equivalent of
4 about 45 million tapered roller bearing sets, cup and
5 cone assemblies. Who is losing that? Is this just new
6 business? Is there some kind of market that is
7 unidentified known as the low value business? The low
8 value business that nobody cares about?

9 This all comes out of the hide of the people
10 who are producing in the U.S.. Whether there is
11 direct price competition in the aftermarket or whether
12 the growth of the aftermarket of the value line is
13 taking business away from the domestic producers can
14 hardly be contested. We have a series of quotes that
15 are in the book that come from the Chinese producers
16 that basically tell you every one of them has gone and
17 become ISO9000 certified. They're moving up the
18 chain. The information in our pre-hearing brief and
19 in the testimony of Mr. Griffith demonstrated
20 factually what is happening to move up the value
21 chain.

22 Mr. Chairman, I will even give back my
23 remaining few seconds.

24 CHAIRMAN KOPLAN: You're so charitable.

25 (Laughter).

1 Thank you for that, Mr. Stewart.

2 Mr. Greenwald and Mr. Jaffe, you have three
3 minutes total to rebut.

4 MR. GREENWALD: May I ask Petitioners to put
5 up two of the slides that they just handed out? Would
6 you accommodate me on that?

7 CHAIRMAN KOPLAN: Do you have any objection
8 to that, Mr. Stewart?

9 MR. STEWART: If he wants to put them up
10 with his two minutes, that's fine, Mr. Chairman.

11 CHAIRMAN KOPLAN: Don't take two minutes to
12 put them up.

13 (Laughter).

14 MR. GREENWALD: Mr. Chairman, thank you for
15 your indulgence, and I want to thank Petitioners.

16 There were two papers in the handouts that I
17 want you to do. The first one, I want you to take out
18 your calculators and you will see in the Petitioner's
19 slides they talk about an enormous 42 percent increase
20 by value of Chinese ball bearings, I believe, over
21 three years. You can leave that one up. That's the
22 next slide.

23 I would like you all to take out your
24 calculators, take the Chinese value, multiply it by
25 1.42 and you tell me if that reaches your threshold of

1 significant.

2 The second point goes to this piece of
3 paper. What I'd like Mr. Stewart to do is to please
4 document every one of those assertions. My basic
5 problem with the whole testimony is that it is
6 assertion without any backup of evidence. So the
7 challenge for Mr. Stewart is for every one of those
8 identify the customer, identify the amount, and
9 identify in particular whether there were U.S.O.
10 produced bearings in competition for that account.

11 I would wager a fair amount that the amounts
12 are small and that there is very very little U.S.O.
13 business competing with what they would like to have
14 you believe is a broad based Chinese Challenge to the
15 U.S.O. TRB industry.

16 Thank you.

17 CHAIRMAN KOPLAN: Thank you.

18 Mr. Jaffe, you have a minute.

19 MR. JAFFE: I will just note that the
20 Petitioner data that they've recently submitted, these
21 are from standard catalogs, so it's not surprising
22 that they're talking about standard ball bearings.
23 Again, they've also once again talked about
24 distributor price lists, nothing to do again with the
25 major market here which is the OEM market. It's big

1 in the automotive OEM and the industrial OEM, and
2 again, they're just relying everything on again the
3 standard bearings. That's the extent of our rebuttal
4 and we reserve the remainder for the concluding
5 statement.

6 CHAIRMAN KOPLAN: Mr. Secretary, we'll now
7 go to closing statements.

8 Mr. Stewart?

9 MR. STEWART: Thank you.

10 At the end of what has been a long day let
11 me start by thanking each of the Commissioners and the
12 staff for their active participation in the hearing
13 process today. Staff has done a fine job of compiling
14 an enormous amount of information in this review. We
15 remain hopeful that when the post-hearing briefs are
16 in and the Commission is focused on its final
17 decisions that the need for continuation of the orders
18 will be self-evident and affirmative determinations
19 will be rendered.

20 The domestic ball industry is in fact not
21 vibrant but in a crisis at the present time with no
22 operating income, collapsing production, shipments,
23 shuttered facilities, and largely declines in the
24 employment base.

25 Imports from the subject countries are

1 highly interchangeable between themselves and with the
2 U.S. product. The existing orders have moved the
3 market closer to fair trade conditions such that
4 prices are higher on many items and in other
5 countries.

6 The six countries are six of the largest
7 ball bearing exporting nations in the world. The
8 record is replete with why exports to the U.S. would
9 increase, rounding out the product line, expanding
10 capacity utilization, pursuing key customers, reseller
11 arbitrage, more rigid labor laws in most of the
12 countries making it more difficult to adjust
13 employment levels there than here.

14 Then there is the history in the other
15 bearing cases, sworn testimony that imports wouldn't
16 and even couldn't increase, followed by increases of
17 100, 200 and 400 percent.

18 Our opponents have once again tried to find
19 reasons why imports don't compete and won't increase
20 yet the facts speak for themselves. There is intense
21 competition for custom and for standard ball bearings.
22 This is not new. It was true when the petition was
23 filed and during the first sunset review.

24 There is only one possible conclusion based
25 on the record and recent history. Revocation will

1 lead to a significant increase in imports and the
2 hemorrhaging of the remaining domestic industry.

3 On tapered roller bearings, Chinese
4 producers are increasingly competitive across a broad
5 array of tapered bearings. A significant part of the
6 purchasing public that has reported is in financial
7 distress, elevating the importance of lower prices for
8 the foreseeable future.

9 The Chinese plan for massive additional
10 investments by local companies and by foreign
11 investment by foreign companies is well documented.
12 The rise of the Chinese auto industry including
13 transplants and the need of foreign bearing companies
14 has drastically improved raw materials, local
15 equipment, and the skills of the labor pool. Chinese
16 producers by their own admission in their five year
17 plan are targeting all major end user areas for TRBs
18 for this next period.

19 At the same time U.S. purchasers are pushing
20 existing suppliers to offer the China price or source
21 from China.

22 While there has been strong demand in the
23 industrial sector in the last several year, Timken has
24 reduced employment, closed facilities, and experienced
25 returns on its domestic operations that have made

1 additional investments difficult to justify, both
2 because of the increasing volumes of product from
3 China and the more than tripling of exports from Japan
4 following revocation of the orders.

5 Three of Timken's facilities produce high
6 volume parts used for automotive, industrial and
7 aftermarket applications. Many Chinese producers
8 currently produce those exact items which account for
9 a substantial part of production of these Timken
10 facilities. There is no question that revocation of
11 the order on Chinese tapered bearings would result in
12 the closure of capacity in the U.S. and the loss of
13 significant employment.

14 We end as we started today asking the
15 Commission to find the revocation of the eight orders
16 will lead to a continuation and recurrence of material
17 injury for the domestic bearing industries within a
18 reasonably foreseeable time.

19 Many thanks.

20 CHAIRMAN KOPLAN: Thank you.

21 Mr. Jaffe? No, who is doing the closing?

22 MR. LIPSTEIN: It's Robert Lipstein from
23 Crowell & Moring. Thank you, Mr. Chairman.

24 I too would like to thank the Commission and
25 the Commission staff for your time and attention

1 today. It's been a long day and perhaps it would be
2 impolitic for me to lead my closing by saying this is
3 a day that should never have happened, but that's
4 where I'll start out.

5 There was testimony this morning about
6 continued presence in the U.S. market of dumped
7 imports. In fact if the United States had been
8 adhering to its international obligations, these would
9 not be dumped imports. These would be fairly traded
10 imports. The dumping margins that the Commerce
11 Department reported exist only because of the
12 continued use of the zeroing methodology which the WTO
13 appellate body has found to be contrary to our
14 international commitments.

15 I might add that that finding arises from
16 the European community's challenge to the antifriction
17 bearings reviews.

18 Adding insult to injury, the margins that
19 have been found and the dumping duties that have been
20 paid have been unlawfully turned over to Petitioner,
21 so we have a domestic industry which is being
22 subsidized by its competitors all through findings
23 which are contrary to the WTO antidumping agreement.

24 Other than those illegal benefits to the
25 domestic industry, I would contend that today's

1 testimony shows that the dumping orders are not
2 benefiting the domestic industry at all. In fact the
3 extensive testimony that you heard today shows that
4 the U.S. ball bearing industry is undergoing a
5 comprehensive and long-lasting restructuring. This
6 has involved significant capital investment on the
7 part of bearing producers to produce high value,
8 highly technical ball bearings in the United States.
9 It has also involved a shift of production outside the
10 United States for lower value ball bearings.

11 The removal of the antidumping orders will
12 not affect these commitments which are driven by
13 fundamental economics of production cost differences
14 between the U.S.O. and the subject countries on the one
15 hand and the non-subject countries on the other.

16 You have heard testimony that customers
17 using lower value ball bearings have themselves moved
18 their productions off-shore. Mr. Daun from NMBTC
19 indicated that it would be a fool's errand for
20 Singapore to try and compete when there are non-
21 subject imports in the marketplace that are much lower
22 priced.

23 You've heard from Mr. Rouse of NSK that NSK
24 is today producing in the United States a range of
25 automotive OEM ball bearings for which there is no

1 foreign competition possible.

2 You've heard from Mr. Fullerton of Koyo that
3 imports in the automotive OEM sector do not compete
4 with Timken or the other companies supporting
5 continuation of these orders and indeed arise only
6 when the demand for product is not sufficient to
7 justify localized investment.

8 So why do we have these orders? That's a
9 good question.

10 I think the real fear of keeping these
11 orders in place, the real harm to the domestic
12 industry, is a story you heard from SMW Automotive.
13 It's the fear that the customer base will be driven
14 off-shore as has happened already with the lower value
15 consumption of ball bearings.

16 The harm to the domestic industry is not
17 from removing these orders. The harm from the
18 domestic industry is from allowing these orders to
19 stay in place because these orders impose unnecessary
20 costs on the Respondent companies in terms of the
21 millions of dollars spent monitoring prices, trying to
22 meet changing model match methodologies, trying to
23 stay one step ahead of the curve at whatever the
24 Department of Commerce is doing, and at the same time
25 concern that their investment in trying to turn the

1 U.S. into a state of the art vibrant ball bearing
2 industry, will be jeopardized because their customers
3 will move off-shore because these orders are kept in
4 place.

5 After 17 years, it's time for these orders
6 to go.

7 Thank you, Mr. Chairman.

8 CHAIRMAN KOPLAN: Thank you, Mr. Lipstein.

9 I want to thank the witnesses on both sides
10 for the quality of the testimony that we heard during
11 the course of the day today. I also want to
12 compliment counsel, the witnesses were certainly well
13 represented both this morning and this afternoon and
14 this evening.

15 Before I go to closing I want to thank our
16 staff for assisting us in getting ready for these
17 investigations. Well done.

18 With that, post-hearing briefs, statements,
19 responsive to questions and requests of the Commission
20 and corrections to the transcript must be filed by May
21 11, 2006. Closing of the record and final release of
22 data to parties by June 6, 2006. And final comments
23 are due June 8, 2006.

24 With that, this hearing is concluded.

25 //

1 (Whereupon, at 7:00 p.m. the hearing was
2 adjourned.)
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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Bearings from China

INVESTIGATION NOS.: 731-TA-344, 391-A, 392-A
and C, 393-A, 394-A, 396
and 399-A (Second Review)

HEARING DATE: Mayh 2, 2006

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.

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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).

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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).

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