

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
CARBON AND ALLOY SEAMLESS) Investigation Nos.:
STANDARD, LINE AND PRESSURE) 731-TA-846-850 (Review)
PIPE FROM THE CZECH REPUBLIC,)
JAPAN, MEXICO, ROMANIA, AND)
SOUTH AFRICA)

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Thursday,
 March 2, 2006

500 E Street, S.W.
 Main Hearing Room 101
 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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P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN KOPLAN: On behalf of the United States International Trade Commission, I welcome you to this hearing in Investigation Nos. 731-TA-846-850 (Review) involving carbon and alloy seamless standard, line and pressure pipe from the Czech Republic, Japan, Mexico, Romania and South Africa.

The purpose of these five-year review investigations is to determine whether the revocation of the antidumping duty orders covering carbon and alloy seamless standard, line and pressure pipe from the Czech Republic, Japan, Mexico, Romania and South Africa would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

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

I understand the parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the secretary.

As all written material will be entered in full into the record, it need not be read to us at this time.

1 The parties are reminded to give any
2 prepared non-confidential testimony and exhibits to
3 the secretary. Do not place any non-confidential
4 testimony or exhibits directly on the public
5 distribution table.

6 All witnesses must be sworn in by the
7 secretary before presenting testimony.

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

12 Madam Secretary, are there any preliminary
13 matters?

14 MS. ABBOTT: No, Mr. Chairman.

15 CHAIRMAN KOPLAN: Very well. Let us proceed
16 with opening remarks.

17 MS. ABBOTT: Our first congressional
18 appearance is the Honorable Melissa A. Hart, United
19 States Congressman, United States House of
20 Representative, 4th District, Pennsylvania.

21 CHAIRMAN KOPLAN: Good morning. Welcome
22 back to the commission.

23 MS. HART: Good morning. Thank you. It's a
24 pleasure to be with you. I am sorry that I have to be
25 with you again, but I appreciate the consideration you

1 have given to the many issues that we have had the
2 opportunity to testify about.

3 This morning, Mr. Chairman and members of
4 the commission, I am here again regarding another
5 issue of great import to the communities that
6 I represent and other very large sectors of this
7 nation. I thank you for the opportunity to testify
8 concerning the five-year sunset review of antidumping
9 duties on imports of seamless standard, line and
10 pressure pipe. These are imports from the Czech
11 Republic, Japan, Mexico, Romania and South Africa
12 which are of great concern.

13 The issues that this commission reviews
14 continue to challenge our nation as we are mired in
15 global competition challenges in American
16 manufacturing. We must carefully weigh our options in
17 order to address these challenges.

18 Ensuring that our trade laws are fully and
19 effectively enforced, that our businesses and workers
20 have a chance to compete on a level playing field, is
21 critical that if we are to restore the health of our
22 nation's manufacturing sector.

23 I am here today, as I have been several
24 times before, to talk to the commission about those
25 American companies which have been harmed by imports,

1 namely the companies and workers producing seamless
2 steel standard, line and pressure pipe today. Some of
3 these companies include United States Steel, Koppel
4 Steel Corporation and Sharon Tube company and they
5 represent over 3000 workers in and around the district
6 which I represent in Pennsylvania. These workers have
7 faced a history of proven unfair trade and are only
8 now beginning to get back on their feet.

9 It is crucial to the continued survival of
10 these companies that they are allowed to recover and
11 not forced into competing against dumped and
12 subsidized imports.

13 Seamless pipe is a high-end product made by
14 skilled workers. It is a core industry. It is one
15 that is critical to the economy and our industrial
16 base. Yet, this industry, like so many others in the
17 steel sector and other manufacturing areas, has
18 continued to face wave after wave of unfair trade.
19 The results have been far too frequent and predictable
20 in my district: financial losses, closed plants, lost
21 jobs, and devastation to communities where they see
22 their economic base and their lifeblood shut down.

23 The seamless pipe industry has struggled for
24 many years to return to sustained profitability and
25 health, even as it has been forced to prosecute two

1 different trade proceedings against foreign producers
2 dumping in this market. This is a highly cyclical and
3 capital intensive industry. It needs to be able to
4 earn strong profits when times are good to weather the
5 storms of downturn in the market.

6 Regardless of good or bad times, unfair
7 trade undermines the ability of these domestic
8 producers to earn the returns that they need to in a
9 properly functioning market. Over time, such an
10 industry will not be able to achieve the profitability
11 it needs to survive, invest and succeed.

12 Our seamless pipe workers have made enduring
13 sacrifices to remain in an industry which is terribly
14 vulnerable to this unfair competition. For years,
15 they have endured uncertainty about their futures and
16 jobs, not because of an inferior product, but instead
17 because foreign producers do not follow the rules.
18 These workers deserve a chance to compete on this
19 level playing field which we seek.

20 The antidumping duty orders have met their
21 intended goal of keeping dumped imports from the
22 subject countries out of the United States market.
23 Thanks to the orders, United States producers have
24 been able to reap the advantage of stronger demand for
25 their high quality pipe. U.S. customers benefit from

1 an adequate supply of seamless pipe and a stronger,
2 more efficient domestic supplier. But if the orders
3 are revoked, all of those benefits will be lost.

4 It is my understanding that there is no
5 presumption that protection will continue to help an
6 industry whether or not the injury will resume after
7 the orders are lifted. The Department of Commerce has
8 already found that the subject producers will resume
9 dumping if the trade remedy orders are lifted.

10 Today you will hear testimony from
11 purchasers and domestic producers that they expect
12 another surge of low priced, unfairly traded imports
13 to enter this market upon revocation. These are the
14 men and women who are closest to the market.

15 I understand that many of the largest
16 foreign producers have not even responded to the
17 commission's questionnaires. These are producers
18 proven to have traded unfairly in this market and have
19 caused injury to U.S. companies and workers. If they
20 are unwilling to provide this commission with the
21 information relevant to your determination, I cannot
22 understand what basis there would be to consider
23 lifting these orders.

24 This obviously affects the completeness of
25 the data and information that is before the commission

1 and raises a very serious concern that any information
2 that you do rely on may be more favorable to the
3 non-cooperating parties than their own data. As
4 I understand it, the law gives you the ability to take
5 into account the failure of these parties to cooperate
6 and I urge you to do so.

7 In my view, we cannot continue to allow the
8 fate of our steel industry to fall into the hands of
9 foreign producers, especially in this case where we
10 have seen a proven history of unfair trade and many of
11 whom have failed to cooperate with the commission
12 here.

13 A healthy seamless pipe industry is critical
14 to my state and our nation's industrial base. I urge
15 you to keep these orders in place and I thank you for
16 your time today.

17 CHAIRMAN KOPLAN: Thank you for taking the
18 time from your schedule to come and testify before us
19 today.

20 If there are no questions from the dias, you
21 are excused.

22 MS. HART: Thank you very much.

23 CHAIRMAN KOPLAN: Thank you.

24 MS. ABBOTT: The Honorable Artur Davis, U.S.
25 Congressman, U.S. House of Representatives, 7th

1 District, Alabama.

2 Mr. Chairman, I stand corrected.

3 Our next speaker will be a state government
4 appearance by the Honorable Larry P. Langford,
5 President and Commissioner of Finance and General
6 Services, Jefferson County Commission, Alabama.

7 CHAIRMAN KOPLAN: Thank you, Madame
8 Secretary.

9 MR. LANGFORD: Good morning.

10 CHAIRMAN KOPLAN: Good morning. Welcome to
11 the commission.

12 MR. LANGFORD: Thank you very much.

13 I know you're going to have a long day of
14 hearings, so I'm going to be very short and very
15 brief.

16 I took the time to write down some great
17 testimony for you, but I'm not going to read it. I'm
18 a product of the steel industry in Alabama. Jefferson
19 County and Birmingham has been considered the
20 Pittsburgh of the south. Many years ago, my whole
21 family worked at that plant. Then all of a sudden,
22 all of the regulations started coming down and pretty
23 put the business almost out of business. My father
24 worked there for 42 years, my grandfather for
25 approximately 37 years.

1 Were it not for U.S. Steel, I would never
2 have been able to go to school. Yet when the industry
3 began to, for the lack of a better word, fall apart,
4 many families were completely devastated and many have
5 never recovered; it must have been about 25 or 30
6 years ago.

7 Mr. Chairman, my main concern here today
8 asking you to keep the restrictions in place and to
9 help this industry, and let me just speak from my
10 heart, if I can, I don't know what's happening to our
11 country. We are falling apart at our very base. We
12 are trying to secure our borders on the one hand and
13 allowing steel to be unfairly brought into the country
14 on the other end.

15 The more I look at our nation falling apart
16 and how people are just putting us out of business
17 right and left -- the textile industry, gone.
18 Automobile manufacturing, I saw a report on the news
19 last night, the top five automobile manufacturers in
20 the world now are foreign cars in our country.
21 I would hope this commission would say enough is
22 enough.

23 We're not asking for protectionism.
24 I support free trade, but it ought to be free trade,
25 where everybody is playing on the same playing field.

1 If we are not allowed to put our steel into their
2 countries, foreign countries ought to be required to
3 play on the same field our people are playing on.

4 This is really an emotional issue for me.
5 I'm normally a lot more composed than this. When
6 you're talking about watching families lose everything
7 they've owned, all because other countries are allowed
8 to come into this country and dump steel, it's
9 devastating.

10 This morning, I want to submit my written
11 testimony. There's some pretty good stuff in here.
12 It took me all of about three hours to write it.

13 CHAIRMAN KOPLAN: Without objection, it will
14 be entered in full into the record.

15 MR. LANGFORD: I hope these words on this
16 paper give you the true picture of what's happening in
17 our country.

18 I'm going to close with this. I watch what
19 we're doing in this nation and it scares me.
20 I watched about three months ago when this country
21 spent all of this time and plotted an intercept course
22 and we sent a satellite to out and meet a comet head
23 on. The huge explosion that occurred, you remember
24 they had it all over the televisions and the
25 newspapers. And then they said we're going to send

1 someone to pick up the debris to see how the world was
2 formed. And all they had to do was turn to Genesis
3 1:1 and it told you how the world was formed. And I
4 see these kinds of things and wonder what on earth is
5 happening in this country. My God, in Birmingham, we
6 are the best kept secret on the planet and our people
7 have suffered so much. So I would ask you all this
8 morning please make everybody play by the same rules
9 the United States is being forced to play by in their
10 countries and if you would do that, you would protect
11 the families of the steelworkers in this country and
12 give our country one more chance to regroup, get
13 itself back together and show the world what we're
14 made of.

15 With that, I will entertain any questions
16 you may have.

17 CHAIRMAN KOPLAN: Thank you so much for
18 taking the time to come here and testify before us
19 today. Let me see if there are any questions from the
20 dias.

21 If not, thank you again and you are excused.

22 MR. LANGFORD: Thank you. And who do I give
23 this to?

24 CHAIRMAN KOPLAN: The secretary.

25 MR. LANGFORD: Thank you.

1 MS. ABBOTT: The Honorable Artur Davis, U.S.
2 Congressman, U.S. House of Representative, 7th
3 District, Alabama.

4 CHAIRMAN KOPLAN: Welcome.

5 MR. DAVIS: Thank you. Let me thank my good
6 friend Larry Langford for his testimony.

7 Mr. Koplan, we meet for the third year in a
8 row, I believe.

9 CHAIRMAN KOPLAN: Yes.

10 MR. DAVIS: Let me begin as I've started,
11 frankly, the last three years. I think it's always
12 important to frame this conversation exactly the right
13 way.

14 Every now and then when we talk about this
15 issue or we talk about the broader issues around it
16 I think there are a number of misunderstandings that
17 tend to dominate the argument. There are always some
18 people who believe that steel is seeking somehow
19 special status. There are always some people who
20 believe that steel is implausibly seeking to reverse
21 longstanding trends of globalization and I think that
22 both of those are fundamentally false.

23 I think this has to be understood as a very
24 important and very vital American industry seeking not
25 elevated status, seeking not special status, but

1 seeking the very important world of a fair and
2 equitable playing field.

3 The president of our county commission, the
4 former mayor of Fairfield, Alabama, Larry Langford,
5 I think put it very well to you. This is an economic
6 argument. There's no question about that. This is an
7 argument about economic values and particular judicial
8 values, but it is about something broader. It is
9 about whether or not particular communities who have
10 been driven and sustained by steel for a number of
11 years will die or whether they will flourish. That
12 may sound melodramatic, but I want to point to the
13 western part of Jefferson County, the county that is
14 the heart of my district and the county of which
15 Mr. Langford is the commission president. The town of
16 which he was once mayor, Fairfield, is a shadow of
17 what it used to be when his father grew up there,
18 Bessemer, Alabama.

19 In 1985, Bessemer was the fifth biggest city
20 in the state of Alabama. It had 52,000 people. Its
21 numbers today have dropped to around 14,000. You
22 can't just see communities fade in this way without
23 seeing an impact on families. So that's the real
24 driving concern, frankly, for the elected officials
25 who come here and testify. We're not blind to the

1 economics, we're not indifferent to the theories, but
2 we have a real live obligation to represent people and
3 to somehow try to articulate their needs and that is
4 why we are so passionate about this.

5 I do want to make the economic argument,
6 though. What everyone does not understand about
7 steel, but what I know all of you do, is that it is an
8 enormously cyclical industry. There are the boom
9 times and there are times when demand, frankly, around
10 the world is low and demand around the country is low.
11 It's these moments, these moments in between peaks and
12 valleys, when the steel industry often struggles and
13 the reality is that, as everyone on this panel and
14 this commission knows, we came very, very close to
15 losing a major chunk of this industry.

16 Five years ago, six years ago, in fact, we
17 did lose one major supplier. A number of other
18 suppliers went through massive consolidations and
19 restructurings. Well, steel has made a comeback but
20 this commission should not lose sight of the fact that
21 that comeback has in part been built on decisions this
22 commission has made. It's been built on good and fair
23 decisions this commission has made. For the
24 commission to walk away from those decisions would
25 have a very, very damaging impact.

1 The next point that I want to make does have
2 to deal with the question of global competition. Once
3 again, this is a reality. There are countries around
4 the world who, for their own understandable economic
5 reasons, dump products. They undercut all the
6 competitive values that we stress and that we
7 emphasize in this economy and our industries need not
8 protection -- that's an easy word to dismiss -- but
9 they need a fair and equal level of regulation.
10 That's the argument, I think, that we make today.

11 The final point that I want to make to this
12 commission is once again very related to how this fits
13 into the overall context of our economy and, gain,
14 President Langford touched on this. A lot of the
15 people that I encounter in west Alabama and around the
16 state of Alabama have one overwhelming frustration.
17 They don't feel that their voices are being heard and
18 they don't feel that anyone is speaking for them and
19 the industries that sustain them and their families.
20 The elected officials cannot be indifferent to that.
21 When people feel their voices aren't being heard, they
22 get very, very frustrated and I ask this commission
23 not to be indifferent to it either.

24 We need to make sure that whatever policies
25 we form on high here in Washington, D.C. that those

1 are policies that are understandable, those are
2 policies that are explainable to people who are living
3 in the Fairfield, Alabamas and the Bessemer, Alabamas
4 and the West Virginias and the western Pennsylvanias.
5 That's really what this is about, can we form trade
6 policies that embrace globalization but that don't
7 embrace globalization at the sole obvious expense of
8 so many of the people who do the work and sustain this
9 country.

10 I'll end with this point. Many of you have
11 read Mr. Friedman's book, The World is Flat, and he is
12 a wonderful advocate. He is a very eloquent spokesman
13 for his beliefs. There is only one thing that I
14 always point out when I am challenged by the force of
15 his argument. The choice is not between trade or no
16 trade. That's an empty, false choice. I know of no
17 respectable voice in this city who even thinks that we
18 could somehow if we wanted to undo the force of
19 globalization. No one wants to do that.

20 The question is can we find a way to be true
21 to this modern economy and true to our values
22 simultaneously? And our values in this country
23 include equity. Our values in this country include
24 competitiveness. Our values in this country, frankly,
25 also include common sense.

1 I thank this commission for respecting those
2 values in the past and I am confident that it will
3 again.

4 Thank you for hearing my testimony.

5 CHAIRMAN KOPLAN: Thank you for coming back
6 again.

7 Let me see if there are any questions from
8 the dias.

9 If not, we very much appreciate your
10 testimony, sir.

11 MR. DAVIS: Thank you, sir.

12 CHAIRMAN KOPLAN: You are excused. Thanks.

13 MS. ABBOTT: The Honorable Tim Ryan, United
14 States Congressman, U.S. House of Representatives,
15 17th District, Ohio.

16 CHAIRMAN KOPLAN: Welcome back.

17 MR. RYAN: Thank you very much. I wish
18 I wasn't here so much. Thank you very much. Good
19 morning.

20 Members of the commission, my name is Tim
21 Ryan and I represent the 17th Congressional District
22 in Ohio. As you know, I return once again to this
23 commission to provide my testimony on behalf of the
24 American steel industry and this time for V&M Star,
25 which has a facility located in Youngstown, Ohio.

1 I appreciate the opportunity to appear
2 before you today and explain the importance of this
3 case for my constituents in Ohio.

4 V&M Star is one of only a few steel
5 companies left in Youngstown, a city in the heart of
6 the steel valley, an area referred to by some
7 unfortunately as the rust belt.

8 Although V&M Star is headquartered in
9 Europe, its plant in Youngstown, Ohio is a place where
10 good jobs provide families an opportunity to put their
11 kids through college, pay taxes and contribute to
12 their local communities.

13 As a producer of large diameter seamless
14 lined pipe, V&M's Youngstown plant has nearly 400
15 workers making pipe that is used in applications such
16 as oil, gas or water pipelines or utility distribution
17 systems.

18 Over the past three years, I have provided
19 testimony several times before the commission to
20 express my support for the steel industry and to
21 express my belief that unfair trade practices by
22 foreign producers are crippling America's domestic
23 manufacturing industry and can no longer be tolerated.

24 I have witnessed firsthand how unfairly
25 traded imports forced many of the steel companies out

1 of my district. When Maverick Tube Corporation shut
2 down its Campbell pipe plant, formerly LPV, in mid
3 2003, it marked the closing of the last remaining
4 Youngstown sheet and tube facility, a facility that
5 stretched for miles along the Mahoning River. The
6 company once employed 20,000 workers and today it's
7 all gone.

8 In my previous testimony, I highlighted to
9 the commission the economic plight of my district in
10 northeast Ohio, but I would like to touch on it again.

11 In my district, we have one of the highest
12 poverty rates in the country. Eighty percent of the
13 children who go to Youngstown City schools are below
14 the poverty rate and they all -- all of them --
15 receive free and reduced lunches.

16 We have school children who have serious
17 risks of lead poisoning because we haven't been able
18 to afford lead paint removal. Our school systems are
19 badly under funded because our tax base has been
20 shrinking for years and manufacturing companies have
21 been shutting down.

22 Our companies, Mr. Chairman, and members of
23 this commission, are vital components to the economy
24 of my district. It is a great help to our community
25 that V&M Star decided to keep this facility in

1 Youngstown, Ohio. Besides making quality products for
2 their customers, the company provides good paying jobs
3 to local workers and these wages are spent in our
4 community. In fact, I understand the mayor of
5 Youngstown also submitted written testimony to the
6 commission to emphasize the importance of this company
7 and its workers to the local economy.

8 Not only is V&M one of the largest high wage
9 employees in the city of Youngstown today, it is also
10 one of the largest taxpayers, with annual tax payments
11 of over \$10 million.

12 I realize that the commission will carefully
13 review the record on this sunset review. I also know
14 the reality is that without the continuation of these
15 orders imports will increase and will most likely
16 threaten V&M and other seamless producers.

17 V&M has explained to me that they are quite
18 concerned about future imports from Japan and Mexico.
19 Both countries have more than adequate seamless
20 capacity to resume larger volumes of exports to the
21 U.S. market at dumped prices.

22 The outcome of this sunset review is very
23 important to V&M Star, their workers and the greater
24 Youngstown community and to the entire domestic
25 seamless pipe industry.

1 I have worked hard in Congress to ensure
2 that our domestic manufacturers have a level playing
3 field in which to compete and I hope that the
4 commission will take the appropriate steps to ensure
5 that these antidumping orders are not revoked.

6 Thank you again for providing me the
7 opportunity to testify here. I am confident that you
8 will find for the American steel industry and its
9 workers after reviewing all of the facts.

10 Thank you very much.

11 CHAIRMAN KOPLAN: Thank you for coming back
12 again.

13 MR. RYAN: I appreciate it.

14 CHAIRMAN KOPLAN: If there are no questions
15 from the dias, and I see there are none, you are
16 excused.

17 MR. RYAN: Let's hope this is my last
18 appearance before the commission, although I'll miss
19 you greatly. Thank you.

20 CHAIRMAN KOPLAN: I'll keep that in mind.

21 MR. RYAN: Thank you very much.

22 CHAIRMAN KOPLAN: Thank you.

23 MS. ABBOTT: The Honorable Craig Foltin,
24 Mayor, City of Lorain, Ohio.

25 CHAIRMAN KOPLAN: Welcome.

1 MR. FOLTIN: Hi, everybody. Thank you very
2 much for having me here today. I am Craig Foltin, the
3 mayor from the City of Lorain, Ohio. Lorain is an
4 industrial city in northeast Ohio and I want to
5 personally stress the importance of this commission
6 ensuring the continuation of the order on the seamless
7 carbon and alloy steel standard line pipe in these
8 five-year reviews.

9 Lorain is certainly no stranger to the
10 hardships that have befallen many factory towns
11 throughout the midwest. I've seen it with my own
12 eyes. I was born and raised in the great city of
13 Lorain and there isn't a person in our town who hasn't
14 been touched in some way by what's been going on in
15 our steel mills.

16 For a long time now, Lorain has been a
17 hardworking town that has centered on heavy industry.
18 When the times were good, we were doing okay, but in
19 the last few years our industries have suffered and
20 many have left. For example, last year, Ford Motor
21 Company announced the closing of its large Lorain
22 plant which cost us over 4000 jobs from what it once
23 had and 2000 jobs last year alone. You can imagine
24 the loss of income to the city and how that's hurt our
25 whole community and throughout not only the city of

1 Lorain but throughout the surrounding areas as well.

2 Accordingly, I'm here today to support the
3 seamless pipe industry and the pipe mills of Lorain
4 basically for two reasons. One, the U.S. workers need
5 to be shielded from unfair trade, but more importantly
6 our city just cannot endure another blow to our
7 economy.

8 The seamless pipe industry in Lorain has
9 suffered because of unfair competition. Fortunately,
10 because of you all here enforcing the trade laws,
11 we've been able to survive. In '95, when you found
12 that we were being injured by imports, you did the
13 right thing and, again, in 2000, when you reviewed it,
14 you did the right thing and I thank you for that.

15 I want to tell you personally I've seen it,
16 it has worked in the city of Lorain but it must
17 continue. Our seamless pipe industry in Lorain has
18 done better the past few years, due in large part to
19 your orders. Our city is surviving because our mills
20 are able to compete.

21 Our city and steel industry, though, cannot
22 weather another bombardment that it has faced in the
23 past and I hope that we are not asked to do this again
24 or face this type of bombardment again.

25 I know when you come to D.C. the talk of

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1 global competition and NAFTA and CAFTA and free trade
2 is all things that benefit many, but in Lorain we're
3 getting hammered by these types of things and I ask
4 you not to allow Lorain to be hammered again. Your
5 orders must stay in place.

6 Cities like Lorain must not be forgotten.
7 We must make foreign competition fair and protect our
8 steel industry. I think it's a dangerous slope to go
9 down, to become too reliant on foreign steel. Just
10 look what's happening in the oil industry.

11 We still have time and the ability here to
12 protect our domestic steel industry, but even with the
13 existing orders and the help that we've had, we still
14 have tough competition with low priced imports from
15 China and the Ukraine.

16 Our U.S. market is the largest and most open
17 in the world and, yes, we should be proud of it, but
18 we cannot allow other countries to go too far and take
19 advantage of this. We cannot allow our industries to
20 go out of business.

21 So while we welcome fair competition, we
22 cannot allow unfair competition. Our trade laws were
23 intended to address the sort of situation that we have
24 here in the city of Lorain, but we need everybody here
25 to enforce those laws.

1 Now, Lorain used to have a lot of steel
2 mills. For decades, the traded imports have forced
3 them to downsize. Our mills used to employ over
4 12,000 people. Now, they employ less than 2000. Our
5 city used to have a population of over 90,000. Now,
6 we have 68,000 people. Every time the mills face a
7 crisis, we have hundreds or even thousands of people
8 who suddenly lose their jobs and even their pensions.

9 I brought a few articles from the local
10 headlines here. You can see steel layoffs double the
11 estimate, steel retirees here worry about what awaits
12 them, more steelworkers face layoffs.

13 There's a human aspect to all of this stuff
14 that I think sometimes gets forgotten when you come to
15 the big city here in Washington, but we see it every
16 day. Whether it's me when I'm speaking to the
17 managers of the mill or the president of the local
18 steel union, which I brought a statement from him
19 today, or whether I'm in the Slovak Home or the Polish
20 Club in Lorain or in the churches of Lorain, you hear
21 the stories of how the layoffs, how the demise in
22 steel in our country have personally affected people,
23 how people have lost their pensions. This uncertainty
24 has that human aspect and a human toll.

25 There's so much family unrest because of

1 this in our city. We have divorces and we've even had
2 two suicides that have been directly attributable to
3 what is going on in the Lorain steel industry.

4 So can you imagine what this does to the
5 pride of our community? Not to mention the economic
6 impact to our city, the schools and the rest of the
7 area.

8 In the city of Lorain, the city workforce is
9 down 20 percent. That means I have less people to
10 provide services to our citizens, less police to
11 answer calls or investigate crimes. We have less
12 firemen to respond to fires or accidents. We have
13 less people maintaining our parks, our streets and our
14 infrastructure. And, heck, forget about any capital
15 improvements in the City of Lorain. Right now, we're
16 going through the budget process and budget hearings
17 with my city council and let me tell you, it's not a
18 fun time or a pretty sight to see some of those
19 meetings and what we have to do, what we're forced to
20 do, the cuts we have to make to cut with the loss of
21 the industry we've had.

22 So I think you could imagine why I get so
23 upset when I see steel being dumped in the U.S. I see
24 us providing aid to some of these countries. We need
25 aid in Lorain. We have to protect our own. What

1 about the men and women in my city? At least we have
2 a chance here to protect our steel industry from
3 unfair competition and I'm asking you to do that
4 because every industry, every business in our city is
5 integrally tied to the steel industry. It's the life
6 blood of our communities. Every hardware store, every
7 drug store, every family diner, every pizza shop is
8 tied and depends on the livelihood of our
9 steelworkers. Considering the hundreds of thousands
10 of jobs that we're losing in Ohio and that we've lost
11 over the last 30 years, we cannot afford to lose these
12 high tech, high wage steel industry jobs in the City
13 of Lorain to foreign competition.

14 I have one more article I brought with us.
15 We're trying in Lorain and we're trying to diversify
16 our economy and we're doing a pretty decent job. This
17 is the front page of the Cleveland Plain Dealer,
18 Ohio's largest newspaper. We're a feature story. It
19 reads, "How a city retools. With the era of the mills
20 waning, leaders look upon other areas."

21 We're doing our part in that, but we need
22 more time to redevelop ourselves. We need time to
23 diversify. We need to continue to protect our steel
24 industry. As the Cleveland Plain Dealer reported in
25 that article, Lorain's biggest asset may be its

1 people. We're proud, hardworking, still active in the
2 city's many churches and social clubs and the Plain
3 Dealer went on to say, "Most of all, they have learned
4 to be resilient."

5 Well, we are, but I ask this commission to
6 give us a fair chance and to give the people of my
7 city a fair chance. Please make sure that our
8 seamless pipe industry that's the life blood of our
9 city will not yet face another surge of dumped
10 imports. Please, I ask you to make sure that another
11 unfair blow does not get delivered to the citizens of
12 the town I represent.

13 Thank you very much for your time.

14 CHAIRMAN KOPLAN: Thank you for appearing
15 before us and testifying today.

16 I see there are no questions from the dias.
17 You are excused.

18 MR. FOLTIN: Thank you.

19 MS. ABBOTT: Opening remarks in support of
20 continuation of orders will be by James C. Hecht,
21 Skadden, Arps, Slate, Meagher & Flom.

22 MR. HECHT: Good morning.

23 CHAIRMAN KOPLAN: Good morning.

24 MR. HECHT: I am Jim Hecht of Skadden, Arps
25 on behalf of Petitioners.

1 The subject producers of seamless small and
2 large diameter standard, line and pressure pipe have
3 already demonstrated the ability to profoundly impact
4 this market. The import surges witnessed from 1997
5 through 1999 coming on the heels of a previous wave of
6 unfairly traded small diameter pipe from 1992 through
7 1994 led to a swift and significant decline in almost
8 every indicator of performance for the two domestic
9 industries at issue.

10 We believe that the record here leaves no
11 room for doubt that if the orders are revoked, the
12 subject producers will return to this market in
13 substantial volumes. This is not merely a question of
14 the unused capacity of the producers at issue. It is
15 equally evident when you consider the attractiveness
16 of the U.S. market as compared to foreign markets
17 currently available to the subject producers. By
18 diverting exports from other markets to the United
19 States, subject producers could obtain higher prices
20 while still significantly underselling the domestic
21 like products.

22 The evidence and simple logic make clear
23 that these producers would return and in very
24 substantial volumes. The question, then, is whether
25 the return of large volumes of dumped pipe will lead

1 to a recurrence of injury. We would urge you to focus
2 your analysis on several factors.

3 First, while the trade relief here has
4 allowed the domestic industries to perform well during
5 the recent period of strong demand, those industries
6 have not earned their cost of capital in the period
7 since 1997. These industries are still making up for
8 lost time in the context of a highly volatile market.

9 Second, this market already reflects a very
10 strong import presence. A return of unfair trade from
11 subject countries will lead to a condition of over
12 supply and a substantial price impact, as subject
13 producers attempt to buy back their previous market
14 share. That added unfairly traded supply would
15 dramatically tip the current balance of supply and
16 demand, even if market conditions remained favorable.

17 Third, we would urge you to carefully
18 consider the data you have on record from purchasers,
19 not only from those testifying today, but as reflected
20 in the array of questionnaire responses you have
21 received. While much of this is confidential, it
22 tells a remarkably consistent and compelling story
23 about the likely effects of the return of subject
24 imports, an assessment coming from those who make
25 their living from their ability to assess developments

1 within this market. We submit that that evidence of
2 likely volume and price effects is clear and
3 overwhelming.

4 We would ask that you contrast the detailed
5 certified information you have received from both
6 purchasers and domestic producers with the failure of
7 a large proportion of Respondents to provide any
8 information in these reviews.

9 The commission appropriately calls upon and
10 expects domestic producers to be rigorous in
11 responding to commission requests, including through
12 comprehensive follow-up questions and very specific
13 data issues. We would submit that the law and
14 appropriate concern for the integrity and completeness
15 of the commission's investigations must expect and
16 demand no less from foreign Respondents.

17 We recognize that the commission has been
18 hesitant to apply adverse inferences based upon
19 non-cooperation of interested parties in the past, but
20 we are talking about some of the principal Respondents
21 in these reviews, producers shown to have dramatically
22 impacted this market in the past. Far from a
23 situation where the producers have tried to cooperate
24 but perhaps failed around the edges to produce all the
25 information requested, the Respondents here have to a

1 large extent simply thumbed their noses at the
2 commission.

3 As you can imagine, that raises enormous
4 concerns from a domestic practitioner's standpoint in
5 terms of the balance and fairness of the proceeding.
6 It is, of course, for the commission to consider the
7 institutional concerns it raises, but it is hard to
8 see when you would apply adverse inferences if not in
9 a situation like this or how you will provide
10 appropriate incentives to provide accurate and
11 complete information if there are no consequences to
12 gaming the system. In short, the available evidence
13 from domestic producers and purchasers combined with
14 the lack of evidence from many Respondents compel
15 affirmative determinations in these reviews.

16 Thank you very much.

17 CHAIRMAN KOPLAN: Thank you, Mr. Hecht.

18 MS. ABBOTT: Opening remarks in opposition
19 to continuation of orders will be by John M. Gurley,
20 Arent Fox.

21 MR. GURLEY: Good morning. My name is John
22 Gurley of Arent Fox. I am counsel for the Mitall
23 Steel Companies as well as Silcotub, a Romanian
24 producer of seamless pipe.

25 Now is truly a great time to be a U.S.

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1 seamless pipe producer. In fact, you can say that
2 about almost any seamless pipe producer around the
3 world. In fact, yesterday, Tenaris reported its 2005
4 results. The highlights include a 63 percent increase
5 in sales and operating margins of almost 30 percent.

6 Given the caravan of witnesses that the U.S.
7 industry has brought here today, none of us would be
8 surprised to hear a very different tale from the U.S.
9 industry. I'd like to think that the number of
10 witnesses a party brings is in direct inverse
11 proportion to the strength of their case. I think at
12 the end of the day the commission will reach that same
13 conclusion.

14 Later today, my colleague John Reilly will
15 try to dispel some myths for you. One of those myths
16 relates to profitability. Petitioners will claim they
17 are barely making ends meet, yet the public
18 profitability margins for the domestic seamless pipe
19 industry in 2005 rival the profit margins of
20 Microsoft. Yes, Microsoft. You don't often hear
21 Microsoft and the U.S. steel industry mentioned in the
22 same sentence, but you will hear it today.

23 A second myth which will be dispelled today
24 is that there is substantial unused domestic capacity.
25 We believe this is simply not true. The U.S.

1 companies here today produce OCTG and the subject
2 merchandise on the same equipment. As profitable as
3 line pipe is, we think that U.S. Steel and Koppel make
4 even more profits on OCTG and prefer to make that
5 product.

6 A lot has changed since this case was
7 originally filed in 1999. Of course, the spectacular
8 increase in oil and gas prices is the first thing that
9 comes to mind, but just as important, the Romanian and
10 Czech seamless pipe companies are now operating under
11 market economy principles. The Czech Republic is
12 already a member of the European Union. Romania will
13 join the European Union in 2007.

14 Third, the U.S. and world steel industry is
15 much more rationalized. All of the foreign producers
16 here today would like to have a U.S. market with as
17 few barriers as possible, but open borders will not
18 adversely impact the U.S. industry. Indeed, as total
19 imports increased in 2004 and 2005, so did the profits
20 of the U.S. seamless pipe producers. Given the
21 dynamics of the world energy market and the U.S.
22 industry's own production and capacity constraints, we
23 cannot envision a fact pattern or at least a
24 convincing fact pattern where our clients could
25 actually injure the U.S. industry.

1 I think the clear burden today has got to be
2 on the U.S. industry. They are the ones making
3 humongous profits. They are the ones whose officials
4 tell Wall Street how well things are going for their
5 company. Seamless pipe prices have jumped in a manner
6 similar to oil and gas. For example, Koppel Steel
7 seamless pipe prices almost doubled between 2003 and
8 2005. Oil today costs almost \$60 a barrel. In 1999,
9 when the cases were filed against these companies, the
10 price of oil was below \$30 a barrel. Every credible
11 prognosticator, including the Department of Energy,
12 has confirmed that high oil and gas prices are here to
13 stay and even if energy prices do go down somewhat,
14 they will go nowhere near the levels we had five years
15 ago.

16 We remind the commission that in the
17 safeguard case in 2001 involving the very same product
18 and in the OCTG cases in 2002 the commission declined
19 to provide relief to the U.S. industry. The financial
20 condition of the U.S. industry in those cases was not
21 even as remotely as strong as it is today.

22 The U.S. industry does not have to worry
23 about foreign producers or imports. Their big dilemma
24 is deciding whether to make large profits on line pipe
25 or OCTG.

1 Thank you very much and we look forward to
2 giving you a more complete presentation later today.

3 CHAIRMAN KOPLAN: Thank you.

4 Madam Secretary?

5 MS. ABBOTT: The panel in support of
6 continuation of antidumping duty orders, please come
7 forward.

8 Mr. Chairman, the witnesses have been sworn.

9 CHAIRMAN KOPLAN: Thank you.

10 You may proceed.

11 MR. HECHT: Good morning again. For the
12 record, I am Jim Hecht, counsel to United States Steel
13 Corporation and Koppel Steel Corporation. You will
14 hear from a number of witnesses representing both the
15 domestic industry and U.S. purchasers, but first
16 I would like to cover some of the primary reasons why
17 the subject orders should remain in place.

18 As you listen to the testimony this morning,
19 we would urge you to focus on three key points.

20 First, the record leaves no doubt that if the orders
21 are revoked subject imports will again pour into this
22 market. Second, that likely volume of imports will
23 injure domestic producers even if demand remains at
24 current levels. Finally, because a number of foreign
25 producers have failed to participate in these reviews

1 or even submit data in response to the commission's
2 questionnaire, the commission should use its authority
3 to take adverse inferences.

4 To begin, let's look at the likely volume of
5 imports. As you can see here, subject imports of
6 small diameter seamless standard, line and pressure
7 pipe, (or "SLP")" surged into this market during 1997
8 and 1998. They receded in 1999 due in large part to
9 the filing of antidumping petitions and since the
10 orders have been imposed they have been almost
11 entirely absent from the United States. In fact,
12 almost all of the subject imports that you see during
13 the period of review came from Romania and Romanian
14 imports plummeted in 2005 after a review at the
15 Department of Commerce finding that Silcotub had
16 dumped product at significant margins and assigning a
17 higher duty rate.

18 These facts demonstrate that the subject
19 orders have played a critical role in keeping dumped
20 imports from the U.S. market.

21 In terms of large diameter, once again, you
22 see that the subject producers have been unable to
23 engage in unfair trade while the orders were in place.
24 I should note that the U.S. Census data shows imports
25 of large diameter SLP from Japan and Mexico during the

1 period of review. As we explained in our brief,
2 however, it appears those imports consist almost
3 entirely of non-subject product that has been excluded
4 from the orders before you.

5 Because they are unable to ship significant
6 volumes of SLP to the United States without dumping,
7 the subject producers have been forced to seek markets
8 elsewhere, but that task is becoming increasingly
9 difficulty as Chinese production of seamless pipe has
10 exploded. These data which were collected by The
11 Staff concern all seamless pipe including products not
12 subject to these reviews. Nevertheless, we believe
13 that they are highly indicative of developments in
14 China where production of seamless pipe went from less
15 than 4 million metric tons in 1999 to over 10 million
16 metric tons by 2004. As China's production grows, it
17 will inevitably put pressure on subject producers in
18 other export markets.

19 For this slide, we looked very closely at
20 Chinese data for the specific harmonized system codes
21 that were most closely related to our subject
22 products. This is a much narrower subset of the
23 production discussed in the prior slide. These data
24 indicate that with respect to the products at issue
25 here China is a significant and growing exporter.

1 During the first nine months of last year,
2 their net exports surged almost 180,000 metric tons.
3 Growing Chinese exports are a critical barrier to
4 exports by subject producers in markets around the
5 world.

6 Here, you see why at the same time subject
7 producers are seeing greater pressure in other markets
8 they will have a major incentive to the United States.
9 This is an enormous market with some of the highest
10 prices in the world. The subject producers already
11 have the channels of distribution in place and are
12 already shipping non-subject products to U.S.
13 customers.

14 For all these reasons, subject producers
15 will certainly increase shipments in the United States
16 upon revocation.

17 Now, focus more specific on Tenaris and
18 Mittal, who together control all the subject producers
19 that submitted data in these reviews. During the
20 original investigation, TAMSA belonged to what is now
21 the Tenaris organization, but the other producers were
22 separate companies, each of which had defined
23 customers and channels of distribution in this market
24 on their own. Now, all of these producers are part of
25 only two transnational corporate groups which will

1 make it even easier for them to penetrate this market.

2 Indeed, the commission has already found
3 that transnational corporate affiliations like those
4 in these cases facilitate imports. This quote comes
5 from your 2001 reviews with respect to small diameter
6 SLP, a case that also involved Tenaris producers. We
7 believe that this finding directly applies to these
8 reviews as well.

9 Meanwhile, let's look at what the subject
10 producers are already doing in this market. Here, you
11 see U.S. imports of large diameter SLP from three of
12 the countries currently covered by orders on small
13 diameter: the Czech Republic, Romania and South
14 Africa.

15 As you can see, in the very year that orders
16 were imposed on small diameter SLP, these countries
17 began shipping more large diameter SLP. Ever since,
18 they have remained active in this market. Given that
19 they are already shipping large diameter SLP to the
20 United States, it is evident that upon revocation they
21 will look to expand their product line to offer small
22 diameter SLP as well.

23 Here, you see shipments of large diameter
24 SLP from two other non-subject countries where Tenaris
25 has facilities, Argentina and Italy. In 1999, these

1 countries shipped very little large diameter to the
2 United States as Tenaris served this market in large
3 part from Mexico. In the wake of these orders,
4 however, Tenaris has begun to ship in large diameter
5 SLP from its other mills and remains a significant
6 player in the market. Upon revocation, it will
7 certainly use its active channels of distribution to
8 rapidly increase imports from its mills in Mexico and
9 Japan.

10 In terms of price effect, the testimony you
11 will hear this morning will make clear the anticipated
12 effect of another surge of dumped imports on pricing
13 in this market. In this regard, the record from the
14 original investigations showed consistent underselling
15 from subject producers, behavior that would likely be
16 repeated upon revocation. Subject producers will be
17 able to buy market share through underselling because
18 of the importance of price to purchasers.

19 Finally, the pricing data you have with
20 respect to Romania, the only country for which you
21 have pricing data during the period of review, shows
22 massive under selling. Thus, the likely price of
23 subject imports will be significant.

24 Turning to likely impact, we see that
25 domestic producers are vulnerable to material injury.

1 While their performance improved significantly during
2 the period of review, they still did not earn their
3 cost of capital from 1997 through the third quarter of
4 2005. Furthermore, this is a volatile market in which
5 demand can fall without warning. Finally, the United
6 States is already crowded with imports from
7 non-subject countries.

8 You should also consider how subject imports
9 harmed domestic producers prior to the imposition of
10 relief in this case. Here, you see how domestic
11 producers of small diameter SLP were harmed during the
12 original period of investigation. While the data for
13 large diameter SLP is confidential, they also reflect
14 a dramatic decline in operating income.

15 The other side has, of course, argued that
16 demand for oil and gas is so strong that makers of SLP
17 would be insulated from injury due to imports, but you
18 heard a similar argument in both your OCTG and
19 seamless pipe reviews five years ago and, at that
20 time, you properly found that forecasts for energy
21 demand are difficult to make with consistent accuracy.

22 This next slide shows that you were correct.
23 Because the U.S. consumption numbers for the subject
24 producers are confidential, this slide uses publicly
25 available data with respect to all seamless standard

1 and line pipe.

2 As you see, the optimistic projections you
3 heard in 2001 were wrong. The very next year,
4 consumption of seamless standard and line pipe fell by
5 over 20 percent. It fell again the next year before
6 recovering in 2004. Speculation as to future demand
7 of oil and gas is of limited value and certainly does
8 not serve as a basis to remove relief in this case.

9 The likely impact of subject imports would
10 be exacerbated by the fact that imports from so many
11 other countries are already in this market. Here, you
12 see how imports of small diameter SLP have surged in
13 recent years.

14 Here is a similar chart for imports of large
15 diameter SLP.

16 Because the United States already has so
17 many imports, an additional surge of dumped imports
18 from the subject producers would likely create a
19 condition of over supply, even if demand is strong.

20 Finally, I would like to address the issue
21 of adverse inferences. In these reviews, you have
22 been hamstrung by the failure of a number of key
23 producers to submit data. I would particularly draw
24 your attention to Japan, a critical country with
25 respect to both like products.

1 According to the data submitted by
2 Respondents, Japan exported over 800,000 tons of
3 seamless pipe in both 2004 and 2005. Even if only a
4 relatively small percentage of these exports were
5 diverted to the United States, those exports would
6 swamp our market. And yet you have almost no
7 information regarding this vital country. Under such
8 circumstances, Congress has made it clear that it is
9 appropriate to draw adverse inferences.

10 Here, you see how the lack of cooperation by
11 subject producers has hindered your reviews. On many
12 of the most critical issues facing the commission, you
13 have been deprived of essential data. If this type of
14 behavior has no consequences, it is hard to see how
15 you will create the needed incentives for foreign
16 producers to provide requested information rather than
17 gaming the system. We urge you to use the tools that
18 Congress has provided in this regard, tools which are
19 particularly appropriate in the current circumstances.

20 With that, I would like to turn to our first
21 witness, Mr. Broglie.

22 MR. BROGLIE: Good morning. My name is Les
23 Broglie. I am General Manager of Tubular Products for
24 United States Steel Corporation. I have worked at
25 U.S. Steel for 32 years and have been in my current

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1 position since September of 2003. I am responsible
2 for all aspects of our tubular business, including the
3 production and sale of both small diameter and large
4 diameter seamless standard, line and pressure pipe,
5 "SLP."

6 This morning, I want to explain why the
7 orders under consideration here are so important to
8 the long-term success of our SLP operations.

9 These orders have been very effective. From
10 the time they were imposed, we have seen almost no
11 dumped imports from the subject countries. That has
12 made a huge difference to both our operating
13 performance and our confidence to invest in this
14 market.

15 In late 2003, we completed the installation
16 of a new \$85 million quench and temper line in our
17 large diameter mill at Lorain, Ohio. This line
18 improves our ability to make specialized SLP for
19 critical applications and allows us to better serve
20 energy producers who are operating in very difficult
21 evaluations.

22 Because this is a high tech business, we
23 must remain on the cutting edge if we hope to succeed.
24 While we believe this line is essential to our future
25 operations, we could not have justified such an

1 investment unless we were confident that we could reap
2 the full benefits associated with favorable market
3 conditions. These orders were critical in giving us
4 the necessary confidence to build that new line.

5 Looking forward, we have other new
6 investments that we would like to make, but our
7 ability to do so may well depend on the assurance that
8 we can earn market-based returns.

9 The orders have also helped our operating
10 performance, which improved significantly after we
11 obtained relief. In analyzing this point, it is
12 important to recall that the demand for SLP is highly
13 volatile. In a single year, consumption may rise or
14 fall by 20 percent or more. In such a business, you
15 cannot judge success or failure by your operating
16 performance at a particular moment. If demand is
17 strong, an SLP producer may have profits that look
18 significant, but are not really large enough to allow
19 the producer to survive in the next downturn.

20 On the other hand, if demand is weak, it is
21 a challenge to report any profits. The important
22 thing is not how profitable you are at a certain
23 moment, but whether you are on pace to make your cost
24 of capital over time.

25 Since early 2004, SLP demand has been

1 relatively strong and the orders have helped us to
2 reap the benefits of that demand, but we are still
3 trying to make up for the losses caused by unfair
4 trade in the late 1990s and by weak demand during 2002
5 and 2003. In fact, over the period from 1997 through
6 the third quarter of 2005, domestic producers did not
7 make their cost of capital with respect to either
8 small diameter SLP or large diameter SLP. Thus, we
9 are in no position to face yet another surge of dumped
10 imports.

11 Furthermore, no period of strong demand
12 lasts forever. Time and time again I have heard
13 confident talk about booming energy demand that will
14 keep producers of SLP busy for years to come. It
15 never works out that way.

16 Consider 2001, when oil and gas prices were
17 strong and almost every expert thought that the demand
18 for SLP would remain high. Instead, demand collapsed
19 the very next year. By the end of 2003, we had
20 suffered heavy losses with respect to our large
21 diameter SLP and our small diameter operations at
22 Lorain were in even greater peril. Fortunately, the
23 orders at issue here enabled us to survive until
24 demand improved.

25 Even if demand remains strong, however, we

1 already face competition from imports. Over the last
2 two years, we have seen more and more imports of SLP
3 from countries like China, Ukraine and Russia. The
4 U.S. market is extremely competitive right now and
5 imports already have a significant share of the
6 market. We are monitoring this situation very
7 carefully and I am concerned about what will happen if
8 this trend continues.

9 So that is where we are, trying to obtain
10 sufficient profits now to make up for earlier losses
11 and to survive the next downturn while facing growing
12 pressure from imports. Under these circumstances, it
13 would be disastrous to let the subject countries
14 resume dumping in the United States. Given the large
15 volume of imports here already, an additional surge of
16 dumped imports from the subject countries would
17 certainly tip us in a condition of over supply
18 regardless of what happens to demand. If that
19 happened, it would be impossible to make necessary
20 investments over time.

21 All of us in the steel business know that
22 the flat rolled producers, including U.S. Steel, were
23 seriously injured by imports during the late 1990s,
24 despite strong demand. We do not want to repeat that
25 history with respect to SLP and so I urge you to keep

1 the orders in place.

2 We take a lot of risks in this business,
3 risks that demand may fall, risks that China may flood
4 the market, risks that we will misjudge the market
5 conditions. We take these risks because we have the
6 confidence in our people and our product, but the
7 question of whether we would be injured by dumped
8 imports is not a risk. It is a certainty.

9 Do not force us to suffer any more injury.
10 Maintain these orders so that the rewards in the U.S.
11 market will go to the SLP producers that practice hard
12 work and innovation and not unfair trade.

13 Thank you very much.

14 MR. LINDGREN: Good morning, Chairman Koplan
15 and members of the commission. For the record, my
16 name is Roger Lindgren and I am President and CEO of
17 V&M Star. I am accompanied today by Ronny Clark, our
18 Vice President of Sales. I have been in the seamless
19 pipe business for over 20 years and have been
20 president of V&M Star since March 2003.

21 V&M Star is a mini mill on the site of a
22 former open hearth furnace in the Youngstown Sheet &
23 Tube Complex in Youngstown, Ohio. A group of
24 investors including Hunt Valve Company started this
25 mini mill during the late 1970s oil boom. By the time

1 the plant was completed, the boom had turned to bust
2 and the Huntco Steel Company filed for bankruptcy.

3 CHAIRMAN KOPLAN: Could you move that
4 microphone just a little bit closer?

5 MR. LINDGREN: I'll try to speak a little
6 louder.

7 The North Star Steel Division of Cargill
8 bought the plant out of bankruptcy in the mid 1980s
9 and invested \$120 million before opening the plant in
10 1986. V&M purchased the plant from North Star Steel,
11 from Cargill, in the middle of July 2002.

12 V&M stands for Vallourec & Mannesmann Tubes,
13 which came about from a 1997 merger of the two largest
14 seamless pipe producers in Europe. Mannesmann was the
15 inventor of the piercing process for seamless pipe
16 technology in 1885. We produce seamless pipe in the
17 size range five inches through ten and three-quarters
18 inches.

19 V&M owns 80.5 percent of V&M Star and the
20 other 19.5 percent is owned by Sumitomo Corporation of
21 America. This is the financial arm of a Japanese
22 trading company and as a passive investor they are
23 looking for a monetary return on their investment.
24 V&M has no business relationship at all with Sumitomo
25 Metals Industry, which is a Japanese competitor of

1 ours and which produces the subject seamless line pipe
2 in Japan.

3 The publicly acknowledged purchase price in
4 2002 was \$380 million. We have recently announced a
5 capital expenditure program for approximately
6 \$100 million over the next several years. This
7 cap ex program will increase our total capacity by
8 approximately 16 percent or 100,000 tons per year and
9 will enable us to continue to improve our quality and
10 productivity.

11 V&M Star has 580 employees and supports many
12 local businesses, including 200 contract workers,
13 mostly at our mini mill in Youngstown and the rest at
14 our heat treating facility in Houston, Texas.

15 In Youngstown, we melt scrap steel in the
16 electric arc furnace. We cast it into rounds and then
17 pierce these rounds to produce seamless pipe,
18 including API line pipe.

19 Between our Youngstown and Houston plants,
20 we have capacity restraints that will not allow us to
21 produce only oil country tubular goods at your
22 Youngstown plant. In fact, even though OCTG rapidly
23 increased since our acquisition in 2002, our product
24 mix has remained relatively steady at 70 percent OCTG,
25 10 percent coupling stock, and 20 percent line pipe.

1 We need to be able to produce sufficient quantities of
2 API line pipe at the Youngstown plant in order to keep
3 capacity utilization high and to reduce average unit
4 cost of production for all the products we produce at
5 the mill. That is why I am here today.

6 While OCTG is our most important product,
7 line pipe is both a strategic product for V&M Star and
8 vitally important to our operations as a whole. Given
9 that our parent company, V&M, is one of the largest
10 seamless pipe producers in the world and does business
11 currently in 88 countries, we are well aware of what
12 is occurring in the international marketplace.

13 Massive over capacity for seamless line pipe
14 has come on steam in China, Russia, and the Ukraine
15 over the last several years. This has resulted in
16 seamless line pipe prices falling in other markets
17 around the world to levels well below seamless line
18 pipe prices.

19 In fact, based on our market intelligence,
20 we believe that prices in the U.S. are the second
21 highest in the world after the prices in Japan.

22 The commission must realize that the
23 Japanese industry is very export oriented and that
24 under current conditions the Japanese will shift their
25 exports from other third country markets to the U.S.

1 if this dumping order is revoked. TAMSA in Mexico
2 would be in the same position and shift exports to the
3 U.S. markets.

4 As the President and CEO of V&M Star, I have
5 two principal responsibilities. I must achieve a good
6 return on investment based on the purchase price for
7 V&M Star as well as on the proposed capital
8 expenditures. I also have a duty to our employees to
9 maintain a safe working environment and provide good
10 wages and benefits. Youngstown is one of the most
11 blighted cities you can encounter in the United
12 States, with passive poverty surrounding our mill.
13 Our plant provides a lifeline out of that property for
14 an extremely dedicated and productive workforce. Our
15 Youngstown payroll exceeds \$40 million and we pay over
16 \$10 million in sorely needed local taxes.

17 All V&M Star and our employees ask for is to
18 maintain fair trade in the seamless pipe market for
19 the United States. Permitting Japanese and Mexican
20 products to be dumped again in large quantities in the
21 U.S. market will have a significant negative impact on
22 V&M Star's ability to earn a profit, maintain
23 production and continue present employment levels.
24 For that reason, we respectfully request that you make
25 affirmative determinations in these investigations.

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1 Thank you.

2 MR. RAMSEY: Good morning. My name is Mike
3 Ramsey. I am the Product Manager for Koppel Steel
4 Corporation, Seamless Industrial Products Division.
5 Like Martin Leland, I am directly involved in the
6 sales and marketing of our seamless pipe products.

7 I would like to talk about this market from
8 somewhat of an international perspective. The first
9 point that I would like to emphasize is that the U.S.
10 market is attractive at the moment. That's a
11 two-edged sword, however. On one hand, the current
12 relatively high price of seamless pipe in this market
13 has enabled us to earn greater financial returns than
14 we have seen for some time. On the other hand, these
15 prices are acting as a magnet for imports. That's one
16 of the main reasons that you are seeing a surge of
17 non-subject imports into this market. It is also the
18 reason why the commission should have no doubt that
19 imports from the countries that are covered by this
20 order would quickly return to this U.S. market in
21 large volumes if these orders are revoked.

22 Simply put, prices in the U.S. market are
23 significantly higher than prices in the other markets
24 to which these producers are now exporting or which
25 they might choose to export to in the future.

1 We know something about prices in these
2 other markets because we have tried to export to those
3 markets and have been unsuccessful. For example,
4 Koppel Steel is an approved supplier to many major oil
5 and gas producers operating overseas. We tried to
6 obtain some of that business but we have always failed
7 to because our prices were not competitive.

8 The other point that I would like to make is
9 that the industries in the countries covered by the
10 orders against small diameter seamless pipe -- and
11 Koppel Steel does not make large diameter pipe, by the
12 way -- have changed in a way that is not a change for
13 the better from our standpoint. Specifically, the
14 international steel giant, Mittal Steel, has acquired
15 mills in the Czech Republic, Romania and South Africa.
16 The majority owner of NKK Steel of Japan is now
17 Tenaris, which has taken control of the Romanian mill
18 Silcotub, which has also shipped small diameter
19 seamless pipe in this market. Tenaris mills in other
20 countries have also shipped other seamless pipe
21 produces into this market as well.

22 In an earlier review of the orders against
23 the imports of small diameter seamless pipe from
24 certain other countries, the commission correctly
25 recognized that foreign producers pose a greater

1 threat when they are controlled by transnational
2 companies. The countries covered by this order caused
3 great harm to our seamless pipe before. Under new
4 ownership, they would pose an even greater problem if
5 the order is revoked.

6 Thank you.

7 MR. LELAND: Good morning. My name is
8 Martin Leland and I am the National Sales Manager for
9 U.S. Steel's Tubular Products Division. I have worked
10 for U.S. Steel for 40 years and have been National
11 Sales Manager since 1996. My experience in this
12 market allows me to appreciate the importance of the
13 orders before you today.

14 As you have heard from others, our seamless
15 pipe business has performed well over the past two
16 years. As someone who is responsible for marketing
17 the product, working in the trenches, you might say,
18 I am happy about that, but I am also very concerned
19 about the future and I'll tell you why. One of the
20 questions that you are no doubt asking yourself is how
21 much the antidumping orders at issue here contributed
22 to our recent success and the answer to that is huge.

23 The countries involved in these cases
24 compete very aggressively on the basis of price. That
25 was true before the orders went into effect and it

1 would be even more true if the orders were revoked
2 because that is the only way they could regain lost
3 market share.

4 In this market, that kind of behavior by
5 foreign producers has triggered major price declines
6 over and over again.

7 This problem has been exacerbated by the
8 manner in which the pressure of a low priced import
9 works its way through the channels of distribution.
10 The vast majority of seamless pipe that is sold in
11 this country, that's domestic and seamless and
12 imported, is sold through distributors, who resell the
13 product to end users. These distributors perform a
14 variety of functions for us and for their end user
15 customers. They market our product, they provide
16 after sale service and, most import for the present
17 purposes, they maintain inventories on hand so that
18 they may respond immediately to customer requirements.
19 This is an important service because we as producers
20 do not want to have sizeable inventories on hand and
21 that is equally true of virtually every domestic oil
22 and gas company.

23 If a distributor believes that prices will
24 fall because dumped imports are widely available in
25 this market, it will cut back its purchase orders to

1 us. A distributor has serious financial exposure when
2 dumped imports force prices down because this
3 immediately devalues its inventory. When distributors
4 have such concerns, they try to liquidate the
5 inventory before it further devalues, which causes
6 prices to fall even more.

7 They are also extremely reluctant to buy
8 from us unless we offer extremely low prices because
9 they don't know where the bottom of the market is.

10 As the saying goes, it's not a good idea to
11 try to catch a falling knife.

12 I am also very concerned about the effects
13 that removal of the order would have as we are already
14 competing with a very large amount of imports that are
15 coming in from other countries. Without the orders,
16 we would almost certainly be faced with a surge in the
17 overall level of supply that would cause prices to
18 fall, irrespective of what's happening on the demand
19 side.

20 The last thought that I would leave you with
21 relates to what is going on in the oil and gas sector.
22 I've been selling pipe of all types to that market for
23 31 years. I've seen oil and gas prices spike, I've
24 seen them plummet many, many times. Along the way,
25 when prices have risen, many stock market analysts

1 have a tendency to become irrationally exuberant and
2 think that a good time will last forever. They focus
3 on certain things going on in the market that are
4 positive and manage to convince themselves that it
5 will be different this time.

6 When you hear that kind of talk, there's
7 only one thing for sure: it's not going to be
8 different this time.

9 Thank you for the opportunity to appear here
10 today.

11 MR. BINDER: I am Larry Binder, Manager of
12 Tubular Products for Red Man Pipe & Supply. Red Man
13 is a major distributor of both small diameter and
14 large diameter seamless standard, line and pressure
15 pipe, or ("SLP".) It is my job to analyze the ups and
16 downs of this market to anticipate what will happen
17 next and to determine who Red Man should respond to
18 upcoming changes in supply and demand.

19 Based on my experience, I am absolutely
20 certain that if we revoke these orders domestic
21 producers of both small diameter and large diameter
22 SLP will be injured. Let me explain why.

23 To begin with, there is already an ample
24 supply of SLP in the United States. This is a highly
25 competitive market right now and SLP is widely

1 available from domestic and foreign producers.
2 Indeed, we have seen a large and growing volume of
3 imports from countries like China and Ukraine enter
4 the United States within the past two years. As of
5 today, we still have a reasonable balance of supply
6 and demand, but distributors like myself are watching
7 closely for signs that the market is becoming
8 oversupplied.

9 If these orders are revoked, we will see an
10 over supply. The foreign producers at issue in this
11 case are some of the biggest and most aggressive
12 seamless pipe producers in the world. They make
13 products that are fully acceptable and suitable for
14 the vast majority of applications in this market.
15 They have ready distribution outlets here in the
16 United States and have every incentive to aggressively
17 pursue opportunities in what is the most attractive
18 market in the world. Indeed, given the prices here
19 are consistently among the highest in the world and
20 probably the highest in terms of truly available
21 export markets, there is no question that these
22 producers would like to shift sales from less
23 lucrative markets in Asia and elsewhere. In short.
24 there should be no question that these producers will
25 return in a big way with profound implications for

1 this market and the U.S. producers.

2 It is important to understand that when
3 distributors perceive the market is becoming over
4 supplied the consequences tend to be severe and
5 immediate. Indeed, distributors who buy most of the
6 SLP in this country do not want to be stuck with a
7 large volume of inventory that can only be sold at a
8 loss, so if they think prices are starting to fall,
9 they will try to shed their inventory as quickly as
10 possible. If this happens, pipe prices could fall
11 very quickly. I have seen this happen many times
12 before and it will happen again if these orders are
13 revoked.

14 These developments will have significant
15 consequences for domestic suppliers. Their order
16 books will dry up as distributors start trying to draw
17 down inventories. To make any sales, domestic
18 producers will have to accept dramatic price cuts,
19 which is a losing game when you realize the desperate
20 desire of these foreign producers to gain a major
21 foothold in this market and look to establish
22 significant market share. Worst of all, prices will
23 continue to fall so long as dumped imports continue to
24 flood this market. The last time the subject
25 producers entered this market, conditions did not

1 stabilize until the domestic industry sought
2 antidumping relief. I would expect the same results
3 if these orders are revoked.

4 Please note in describing these consequences
5 of revocation I have assumed that the end use demand
6 for SLP will remain strong. As you all know, this
7 market is exceedingly unpredictable and a new surge of
8 dumped imports could coincide with falling demand.
9 I have seen this happen many times. I remember the
10 early 1980s when the rig count was 3000 plus, about
11 twice as much as it is in today's market. Those were
12 the days of the energy crisis, when many experts
13 believed that oil and gas prices would continue rising
14 indefinitely. Within a few years the market had
15 completely collapsed and remained depressed for years
16 to come.

17 I also remember just a few years ago, the
18 last time I testified before this commission, that was
19 in 2001, demand was pretty good and we were again
20 hearing bold predictions that it would remain strong
21 for years to come. Instead, both 2002 and 2003 were
22 terrible years for demand. In my opinion, you would
23 make a serious mistake if you revoked these orders in
24 the expectation that demand would somehow prevent
25 domestic producers from being harmed.

1 In conclusion, do not be fooled by current
2 prices. If you revoke these orders and allow renewed
3 dumping from the subject countries, history will
4 undoubtedly repeat itself with severe negative
5 consequences for this market.

6 Thank you.

7 MR. DURHAM: Good morning. I am James
8 Durham, Chief Executive Officer of Dixie Pipe Sales.
9 We are a major distributor of both large diameter and
10 small diameter seamless standard line and pressure
11 pipe, (or SLP".)

12 Dixie Pipe has been in the distribution
13 business for over 50 years. Our success depends upon
14 our ability to predict how this market will respond to
15 changes, such as a decision to revoke the orders on
16 SLP at issue here.

17 Since 2000, the U.S. market has altered in
18 ways that make it more likely that revocation of the
19 orders would injure domestic producers and
20 distributors like Dixie Pipe.

21 One important change is that many of the
22 foreign producers covered by these reviews now belong
23 to two companies, Tenaris and Mittal. During the
24 original investigations, Tenaris controlled only one
25 subject producer, and that was Tamsa in Mexico.

1 Since then, it has purchased NKK in Japan
2 and Silcotub. Tenaris is well known in the U.S. and
3 around the world for its low prices and its
4 determination to increase market share.

5 Its quality is widely respected, and its SLP
6 would be accepted by any major purchaser. In fact,
7 Tenaris is already selling SLP here, particularly
8 large diameter SLP from its mill in Italy.

9 By purchasing two of the subject producers,
10 Tenaris has significantly improved the ability of
11 those companies to find customers in the U.S. The
12 same dynamic is taking place with the Mittal
13 producers. Five years ago, NovaHut, from the Czech
14 Republic; Petrotube, from Rumania; and ISCorp, from
15 South Africa, were each separate companies trying to
16 carve out identities in this market.

17 Now they all belong to Mittal, which is
18 establishing a sales force to promote seamless pipe
19 from all three companies. By working together, these
20 companies have a much better chance to increase their
21 share of the U.S. market, and also to increase their
22 sales to Dixie Pipe.

23 Indeed, we already buy other seamless
24 products from these mills and hope to continue to do
25 so in the future. Another important change concerns

1 the willingness of U.S. customers to use foreign pipe.

2 Even five years ago many American end-users
3 were willing to buy seamless pipe from foreign mills,
4 particularly when they could get it at dump prices.
5 That's one way the subject producers were able to
6 injure domestic producers.

7 But in my opinion, foreign pipe is even more
8 acceptable today than it was five years ago in 2000.
9 In recent years, many customers have grown accustomed
10 to using SLP from countries like China, Russia, and
11 the Ukraine.

12 They certainly will not hesitate to buy SLP
13 from any other countries at issue here. Because of
14 these changes, I believe that if the orders are
15 revoked, imports from the subject countries will have
16 an even bigger impact on this market than they did
17 before.

18 End-users will certainly want to obtain low-
19 price pipe from companies that are so well known in
20 this market. As a distributor, I will certainly buy
21 SLP from these companies if the orders are revoked.
22 Indeed, I would have to do so in order to remain
23 competitive.

24 So upon revocation, I expect that exports
25 would surge and prices would fall, regardless of what

1 happens to demand. Even the strongest demand can be
2 overwhelmed by too much supply, which is exactly what
3 we see here if the orders are revoked.

4 In fact, we are seeing signs that this
5 market may already be over-supplied. At Dixie Pipe,
6 we have seen significantly lower import prices based
7 on orders during the last two quarters. In other
8 words, we distributors are currently being hurt
9 because there is so much supply in the U.S.

10 If current trends continue the domestic
11 mills will certainly be harmed as well. Accordingly,
12 an additional surge of imports would have severe
13 effects on this market. Thank you.

14 MR. SHOAFF: Good morning. I am John
15 Shoaff, Vice President, Marketing and Alliances, for
16 Sooner Pipe, one of the world's largest distributors
17 of tubular products. We buy and sell seamless
18 products, including seamless standard line pipe, or
19 SLP.

20 Based on my knowledge of this market, I
21 would like to highlight four critical reasons why
22 revocation of the orders at issue would result in
23 injury to the domestic producers.

24 First, the United States is an exporters'
25 dream. A very large market, with a transparent

1 distribution system, that makes it easy for any
2 foreign producer to find customers.

3 In addition, you have a lot of customers who
4 are looking for the lowest priced product, and who are
5 willing to use foreign pipe. During my years in this
6 industry, I have seen that every major SLP producer in
7 the world wants to be here.

8 The only reason we are not seeing
9 significant volumes of SLP from the subject countries
10 is because those countries are under order. If the
11 orders are revoked, they will certainly return to this
12 market in significant volumes.

13 Second, SLP is for the most part a commodity
14 product made to certain standard specifications. So
15 long as a particular producer meets the relevant API
16 or ASTM specifications, its product will be widely
17 accepted. In particular, I believe that the SLP
18 covered by these orders would be accepted by almost
19 all major end-users.

20 Tenaris, Mittal, and the other Japanese
21 producers are all well known and well respected in
22 this market. Because SLP from the subject producers
23 can so easily be substituted for the domestic like
24 product, concerns about quality simply will not be an
25 issue for them.

1 Third, any SLP producer can buy a market
2 share if it is willing to undersell its competitors.
3 End-users are always looking for ways to cut their
4 costs, and so it is never difficult to find customers
5 for low-priced product.

6 Look at how quickly imports from the subject
7 countries surged during the original investigation.
8 That shows how easy it is to make sales when you
9 consistently under-sell the domestic producers.

10 If the orders are revoked, I would expect
11 them to use the same tactics and to accomplish the
12 same results.

13 Fourth, once a new surge of dumped imports
14 enters this market, distributors like Sooner will
15 likely have no choice but to do business with the
16 subject producers. We at Sooner have traditionally
17 dealt with U.S. producers, and we would prefer to do
18 so in the future.

19 But we cannot afford to follow this strategy
20 if the market is flooded with dumped imports. Such an
21 import surge would drive down U.S. prices, and our
22 customers would expect us to reduce prices as well.

23 Under such circumstances, we must either
24 obtain lower prices from domestic suppliers, or begin
25 purchasing imports. Taken together, these facts

1 plainly demonstrate how revocation of the orders at
2 issue will lead directly to injury for domestic
3 producers.

4 Because this market is so attractive the
5 subject producers will certainly ship large volumes of
6 low-priced SLP to the United States. Because the
7 subject producers are so well known in this market,
8 their shipments will soon find customers.

9 Indeed, all major distributors will be
10 forced to deal with subject producers to protect their
11 own interests. Thank you.

12 MR. KAPLAN: Good morning. I am Seth Kaplan
13 of CRA International, where I head the international
14 trade practice. I have been asked by U.S. Steel and
15 Koppel Steel to examine the financial performance of
16 the small --

17 CHAIRMAN KOPLAN: Mr. Kaplan, could you move
18 that mike closer.

19 MR. KAPLAN: I have been asked by U.S. Steel
20 and Koppel Steel to examine the financial performance
21 of the small and large diameter seamless standard
22 pressure and line pipe industries over the period
23 extending across the original period of investigation,
24 and the current period of review.

25 I have also been asked to examine the

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1 conditions of competition in the domestic and
2 international pipe markets, in the context of these
3 orders.

4 With respect to the financial performance of
5 these industries, I have found that neither the small
6 nor the large diameter industries return their
7 weighted average cost of capital extending across the
8 period from 1997, the first year of the original
9 investigations, POI, through the first three quarters
10 of 2005, this despite the strong performance of the
11 last several years.

12 This result should highlight the cyclicity
13 and volatility of these industries. My analysis did
14 not include the period covering the previous
15 investigation in the early '90s. I am confident that
16 inclusion of that period and the period in the middle
17 '90s between the POI in the first case and the second
18 will not cause my analysis or my conclusions to
19 change.

20 My point is this. Even if we look back 15
21 years, the episodic dumping, coupled with the demand
22 side volatility, has kept this industry performing
23 below its weighted average cost of capital for a long
24 time indeed.

25 The Commission should consider this when

1 deciding whether it is appropriate to project the
2 current financial performance into the indefinite or
3 even immediate future.

4 One note on the cost of capital benchmarking
5 used in the analysis. I have reported both the cost
6 of capital for an SIC code, including steel
7 manufacturing, and I have also reported the weighted
8 average cost of capital for a public seamless
9 producer.

10 The industries, both industries, fail to
11 meet either threshold. The conditions of competition
12 in domestic and international pipe markets, and the
13 information on the record, demonstrate that foreign
14 respondents have the opportunity and motive to enter
15 the U.S. market with significant volumes of low priced
16 imports.

17 First, I ask the Commission to examine the
18 volume of excess and divertable capacity from the
19 subject countries. To the extent that certain
20 companies have refused to report their data, look at
21 the data from the original investigations or data that
22 we have supplied from public and proprietary sources.

23 Please compare the magnitude of potential
24 imports against the volume of domestic consumption.
25 Second, look at the price differentials between

1 international markets and the domestic market. We
2 have provided data from proprietary sources showing
3 the significant price gap.

4 Finally, consider the consequences of these
5 two facts. As the Commission has repeatedly
6 recognized and has cited in more than several
7 opinions, arbitrage will occur. Given the expected
8 volume of imports, the significant price gap, the
9 transparency of the distribution system, the exporters
10 demonstrated ability to enter the U.S. market quickly
11 as shown in the earlier investigation, there is little
12 question what will occur.

13 The effects of removing the orders will have
14 significant deleterious effects on prices, shipments,
15 revenues, profits, and both industries ability to
16 invest. I would be happy to answer any questions.
17 Thank you.

18 MR. HECHT: Mr. Chairman, that concludes our
19 affirmative presentation.

20 CHAIRMAN KOPLAN: Thank you very much. I
21 thank all of the witnesses for their testimony thus
22 far today. Before we begin the questioning, let me
23 just say because of the number of witnesses that we
24 have, and the way that you are spread out in the room,
25 if you would re-identify yourselves each time you

1 respond to a question, that would be helpful for the
2 reporter. We will begin the questioning with
3 Commissioner Hillman.

4 COMMISSIONER HILLMAN: Thank you, and I
5 would like to welcome all of you, and many of you,
6 welcome you back to this hearing this morning. We
7 very much appreciate you taking the time to be with
8 us.

9 Let me start if I could first with the issue
10 of pricing, and what has been going on in the market
11 in terms of prices. We obviously have seen a lot of
12 our review investigations of late in which we have
13 seen costs going up and prices going up along with it,
14 which is not something that we have always seen.

15 But I would say that in this industry, we
16 have clearly seen prices rising at levels far in
17 excess of the levels that costs are increasing. So I
18 guess I would like to hear both from the producers and
19 from the distributors who are here.

20 Tell me a little bit about how this price
21 discussion goes. I mean, you are going out to your
22 customers and saying we would like to increase our
23 prices. Are you telling them why? And what are you
24 saying about why you need a price increase?

25 MR. BROGLIE: I will start. At U.S. Steel,

1 we saw as step change starting actually at the end of
2 2003, with the advent of raw material shortages, some
3 of it was due to a fire that was in a coal mine in
4 West Virginia, and some other circumstances with some
5 electrical problems in the third and fourth quarter
6 with a power interruption that impacted us.

7 And so there was some fall off in production
8 during that time. Moving into 2004, we saw almost a
9 perfect storm happening with raw material shortages;
10 iron ore, coal, and consequently coke. And it was a
11 major change, step change, in raw material, not only
12 availability, but pricing.

13 And the other point that I would like to
14 make is that our distributors, and they can speak to
15 this more, but it looks like the industry had got to
16 very low levels of inventory, and then all of a sudden
17 things starting to pick up drastically.

18 And with a combined step change in raw
19 materials that were on the flat roll side, there were
20 shortages of raw materials, hot band so to speak, and
21 so it just created this atmosphere out there that a
22 lot more people were buying faster.

23 COMMISSIONER HILLMAN: Okay. But basically
24 as I hear it, your initial sense of the price
25 increases was based on a cost increase?

1 MR. BROGLIE: Right.

2 COMMISSIONER HILLMAN: Okay. Others? Any
3 of the distributors want to tell me what the tenor of
4 the discussion was, or Mr. Lindgren, from the
5 manufacturing side? Again, how are you describing to
6 your customers when, and why, and how, and how much of
7 a price increase you are needing? Mr. Clark, did you
8 want to respond?

9 MR. LELAND: I was going to have Mr. Clark,
10 Vice President of Sales, respond.

11 MR. CLARK: Just to add to what Mr. Broglie
12 said, it was a perfect storm that started this in late
13 2003. We didn't really see an increase in demand at
14 that time, but from a raw materials side, high demand
15 for steel products globally got this kicked off, and
16 the trend continued therefore on the raw materials
17 side, putting pressure on all the raw materials used
18 to make all of our pipe products.

19 So we were forced to jump out and get a head
20 start on this pricing in 2004, to one, offset the raw
21 material cost increases; and two, try to recover the
22 losses that we had incurred in the past; and three, to
23 allow us to increase prices to a level that would
24 allow us to reinvest in the facilities.

25 And this all happened at a time when we saw

1 some incremental increases in demand. So it all just
2 -- it just built on raw materials and some slight
3 increases in demand, and that's where we ended up with
4 the pricing today.

5 COMMISSIONER HILLMAN: And then if I could
6 hear on the distributor side. I mean, how have these
7 requests for price increases been conveyed to you.
8 What is your understanding of why prices have gone up,
9 and how often prices are going up, and if I could hear
10 a little bit on the distributor side of it.

11 MR. SHOAFF: I'm John Shoaff with Sooner
12 Pipe, and I would echo both what these gentlemen said
13 prior to me speaking here, but besides just the raw
14 material increases going up for the product itself. I
15 mean, the other part of the perfect storm that was
16 alluded to was the demand on the drilling side for
17 steel.

18 And there was an insatiable appetite, and I
19 think everybody knows about the China situation for
20 steel. So we had situations where almost weekly you
21 had scrap prices going up, and negotiations back and
22 forth between China and some of the U.S. producers
23 with regard to pricing.

24 So it was climbing at a very, very fast
25 pace. And like I said also, the demand from the U.S.

1 Rig Count, for instance, which goes into higher
2 demand, of course, for the product that we are
3 speaking about, was going on at the same time.

4 So that is kind of the other side of the
5 perfect storm. So the price increases that we
6 received from the producers obviously we had to pass
7 on to our customers, which were the end-users.

8 And at that time, like I said, the appetite
9 for consumption of steel was very strong, and so it
10 was accepted pretty readily in the marketplace.

11 MR. DURHAM: I would also say -- I am Jim
12 Durham -- that in 2003 and 2002 were two of the worst
13 years from a demand standpoint, from a profitability
14 standpoint, and distributors had run their inventories
15 down probably to the lowest point that they had been
16 in many, many years.

17 And when this happened in late 2003,
18 everybody had low inventories, and everyone was trying
19 to get more inventories, and all of that was a big
20 part of it, too, but I think that the fact that the
21 two prior years were so bad also had a big influence
22 in it.

23 COMMISSIONER HILLMAN: Okay. And the fact
24 that the prices are going up actually considerably
25 more than the costs are going up. Again, it is not

1 something that we always see. Any comment on that?

2 MR. LELAND: I am Martin Leland with U.S.
3 Steel, and you have to understand that we started at
4 an extremely low price in 2003. There was a lot of
5 ground to be made up. And I think that would explain
6 why the standard line pipe prices jumped in 2004.

7 I would make the point that the last price
8 increase that has come into play has been a year ago,
9 and we have another one that we have tentatively
10 announced that has not taken effect yet, but it has
11 been a year since we have had a price increase, a
12 domestic price increase on seamless standard line
13 pipe.

14 COMMISSIONER HILLMAN: Okay. And typically
15 have you gotten much -- in other words, during this
16 most recent couple of years, when you have gone out
17 for price increases, again have they all stocked?

18 MR. LELAND: Yes, ma'am. We have had
19 acceptance to all of them.

20 COMMISSIONER HILLMAN: All right. Well, I
21 appreciate those answers. Mr. Durham, if I could then
22 turn to you on this issue of understanding a little
23 bit more the implications of Tenaris and forming these
24 alliances. Help me understand.

25 When Tenaris is selling product in the

1 market are they selling it as a Tenaris -- I don't
2 want to say brand, but a Tenaris product, or are you
3 still seeing it being as sold a TAMSA product, or NKK
4 product? In other words, by the name of the
5 manufacturer, or by the country of origin.

6 Help me understand what it is about being in
7 an alliance with either Tenaris or Mittal on the other
8 side that changes the way in which the product is
9 marketed, or sold, or accepted in the marketplace.

10 MR. DURHAM: Well, in the case of Tenaris,
11 which is the first one that you addressed, they sell
12 it under the name Tenaris. When they offer pipe, they
13 will tell you which country and which mill that they
14 are offering it from.

15 But I think from a liability standpoint,
16 which we as distributors look at, we are more
17 comfortable in buying from a larger company, like a
18 Tenaris, or Mittal, because of the size, and because
19 of their staying power in the event that there was a
20 problem of some sort, than we might be from buying
21 that has one small mill only in a foreign country.

22 COMMISSIONER HILLMAN: Okay. All right. So
23 it is still clearly known to the buyer which mill,
24 which country, et cetera.

25 MR. DURHAM: That's correct.

1 COMMISSIONER HILLMAN: It is not as though
2 Tenaris adds a brand. It just adds a deep pocket on
3 the liability and other related issues?

4 MR. DURHAM: That's correct. What you are
5 saying is correct.

6 COMMISSIONER HILLMAN: Okay. All right.
7 And pricing, again, are you seeing any commonality in
8 pricing from Tenaris, or are they still pricing their
9 product from, say, TAMSA, differently from their
10 product from NKK, or any of their other affiliates?

11 MR. DURHAM: Well, from Tenaris, we can't
12 buy from Tenaris. Tenaris has a limited distribution
13 network, and we are not part of that network. And a
14 lot of what Tenaris sells in this country, as far as
15 big jobs are concerned, they sell that direct. They
16 choose not to work through distribution.

17 COMMISSIONER HILLMAN: Okay. Does any one
18 else know if it is a Tenaris product whether it is
19 priced the same, notwithstanding which of the
20 individual mills it is coming out of? I see no
21 answers. All right. Thank you very much.

22 MR. RAMSEY: Mike Ramsey. One thing that I
23 would like to add is that in Canada, Tenaris operates
24 a seamless mill in Sault Ste. Marie, Ontario, Canada.
25 They market in Canada as Tenaris. So they are selling

1 into that market under the umbrella name, with product
2 coming from countries all over the world to many
3 locations.

4 COMMISSIONER HILLMAN: All right. I
5 appreciate that. Thank you.

6 CHAIRMAN KOPLAN: Commissioner Lane.

7 COMMISSIONER LANE: Good morning. Welcome
8 to all of you to this proceeding. Mr. Hecht, I would
9 like to start with you, and if you are not the proper
10 person, maybe Mr. Kaplan might want to answer it. You
11 suggest that industry has been unable to consistently
12 achieve earnings equal to its cost of capital.

13 I would like to know what capital structure
14 and cost rates for that inequity are the basis for the
15 12.7 percent cost of capital you mention in your
16 prehearing brief at page 50?

17 MR. HECHT: I think I will Seth address that
18 if that is all right.

19 MR. KAPLAN: Are you sure, Jim? We use two
20 thresholds. One is from a publicly available source
21 that is kind of the standard in the finance industry,
22 called Ibbitson, which calculates the weighted average
23 cost of capital based on SIC codes for various
24 industries.

25 We also calculated the weighted average cost

1 of capital for a domestic producer with significant
2 revenues as a part of their total revenues from
3 seamless pipe. You always are looking for a
4 comparable threshold.

5 You know, when you sell your house, there is
6 not a house that is on that lot of land that is
7 exactly the same. You have to go to another house at
8 a different location that might be slightly different
9 to try to figure out a threshold.

10 In the finance world, when you are selling a
11 company, and you look for comparables, it might not be
12 in the exact industry, but a related industry, with a
13 similar capital structure. So by going to the SIC
14 code for steel producing companies, you could look at
15 companies that have not identical, but similar types
16 of structures, and get a whole group of them to find a
17 threshold.

18 Another way to do it is to look at a single
19 company that makes the same product, and we did it
20 both ways, and found that in neither instance did
21 either the small or large diameter industries meet
22 their weighted average cost of capital based on those
23 thresholds from 1997 through the end of the POR in the
24 third quarter of 2005.

25 COMMISSIONER LANE: So from 1997 to 2005,

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1 the industry has not been able to meet its weighted
2 cost of capital. So is that an average period of time
3 that we should be looking at, or exactly what
4 conclusions should we be drawing from that statement?

5 MR. KAPLAN: Well, in recent investigations
6 the Commission has looked at the period of review, and
7 sometimes has reported the period of the original
8 period of the investigation, and put that information
9 on the record.

10 Since these industries and the demand for
11 them is very volatile and very cyclical, it doesn't
12 make sense to look at one year. And the Commission,
13 of course, has recognized that in these recent flat-
14 rolled reviews.

15 If an industry doesn't meet its cost of
16 capital over an extended period of time, what you find
17 is that the industry will contract. Capital is drawn
18 to industries with returns greater than their weighted
19 average cost of capital, and it exits from industries
20 that it doesn't reach these.

21 The speed at which this occurs is not
22 instantaneous because these industries have long lived
23 capital assets. At the same time, however, if you
24 don't meet your cost of capital, investment will dry
25 up and the industry will shrink.

1 And that is the way the financial analysts
2 use these indices and these thresholds in trying to
3 evaluate the prospects of various industries, and when
4 investment banks do due diligence, this is one factor
5 that they look at in deciding the future valuation of
6 a company in a particular industry.

7 So we think it is opposite in you deciding
8 how investment will be affected, as that is one of the
9 factors under the statute.

10 COMMISSIONER LANE: Okay. I would like to
11 follow up. We have heard testimony this morning about
12 large capital expenditures both in the immediate past
13 and in the future. Mr. Broglie mentioned some
14 significant investment at Lorain in 2002; and Mr.
15 Lindgren testified regarding a very large capital
16 expenditure program.

17 I would like for you to review the capital
18 expenditures shown on Tables 3-10 and 3-21 of the
19 staff report, which are based on your questionnaire
20 responses, and I would like for you to compare those
21 tables with the capital expenditure testimony, and
22 reconcile any differences.

23 MR. HECHT: We would be happy to address
24 that for our clients to the extent that we can. I
25 think again that there may be two different clients

1 here, and so we will endeavor to do that.

2 COMMISSIONER LANE: Thank you.

3 MR. SCHAGRIN: Commissioner Lane, for the
4 record, I am Roger Schagrin. I announce myself for
5 the transcript, and because that data gives only two
6 members of the largest diameter industry, and that
7 data is confidential, we will address that
8 confidentially in our post-hearing brief, Commissioner
9 Lane.

10 COMMISSIONER LANE: Okay. Thank you. Now
11 the Respondents have argued that U.S. producers have
12 shifted the production of more profitable OCTG, which
13 is not subject to the orders under review. First of
14 all, could somebody explain to me what the process is
15 from shifting from one product line to the other.

16 Just tell me in terms of whether it is
17 easier or not, or --

18 MR. BROGLIE: I will start and give you a
19 little explanation on how we view things. The answer
20 to that is that we have actually increased our
21 production of SLP product from 2003. The answer to
22 your question is that we need both product lines to
23 keep our facilities running, running efficiently.

24 Basically the mills, from start to finish,
25 and particularly the hot mills, are very schedule

1 intensive. And we need that product line if we are on
2 a certain OD to make sure that both product lines are
3 running consecutively, and minimize the size changes
4 and those kinds of things.

5 And without that product line, we would be
6 severely hampered. So the answer to your question is
7 that we are not moving material or product lines from
8 OCTG, or standard lines from OCTG, because again we
9 need that product line to keep our mills running
10 efficiently.

11 MR. LINDGREN: Roger Lindgren. May I add to
12 that, Commissioner Lane?

13 COMMISSIONER LANE: Yes, go right ahead.

14 MR. LINDGREN: In our plan, as I stated in
15 my testimony, our plan is to be 70 percent OCTG, and
16 10 percent coupling stock, and 20 percent line pipe,
17 and our facilities are laid out in that way.

18 So just to get back to the heart of your
19 question, of course in the steel making, we make all
20 the steel in the same steel making facility, and in
21 making the pipe, we make it all in the same pipe mill.

22 But then when it comes to the finishing
23 operation, we finish our line pipe in Ohio, and we
24 have facilities for that, and then we have separate
25 facilities for finishing the pipe into OCTG in

1 Houston. So I don't know if that helps answer.

2 COMMISSIONER LANE: Yes, thank you. Now, we
3 have heard this morning, several of you have testified
4 that there are imports coming in from -- non-subject
5 imports coming in from the Ukraine, Russia, and China.

6 Now, if the orders were taken off would
7 subject imports come into the United States and
8 displace domestic product, or non-subject imports, and
9 why? Dr. Kaplan.

10 MR. KAPLAN: Yes. We had actually an
11 interesting discussion about this yesterday, and based
12 on the history of what has occurred before, and which
13 products are more substitutable, we believe that it
14 will be the domestic product.

15 The Commission and the economists often
16 evaluate how subject and non-subject, and domestic
17 products, substitute for each other. And in this case
18 where you have product by Mittal, and product by
19 Tenaris, which are from major companies that meet
20 international specs, and have those reputations, we
21 think those products are more substitutable for the
22 products produced by the domestic industry, which also
23 have the same reputation.

24 So we believe that the competition there is
25 more head-to-head than with non-subject imports,

1 although those products are becoming better, and are
2 becoming more accepted in the marketplace.

3 But still, I don't think that all cases have
4 reached the level of the subject imports and the
5 domestic product.

6 COMMISSIONER LANE: Okay. You referred in
7 your testimony that you had provided us with pricing
8 information. Could you refer me to where that is so
9 that I could look at it?

10 MR. KAPLAN: In the February 22 briefs of
11 Skadden Arps, there is a large diameter and small
12 diameter brief. There is an exhibit with a study that
13 we conducted, and in the exhibit the pricing
14 information is contained.

15 COMMISSIONER LANE: Okay. Thank you.

16 CHAIRMAN KOPLAN: Thank you. Commissioner
17 Pearson.

18 COMMISSIONER PEARSON: Thank you, Mr.
19 Chairman, and let me extend my greetings to the panel
20 also. Good to have you here this morning. I want to
21 go back to the issue that Commissioner Lane was
22 addressing initially, the cost of capital, because
23 frankly I am trying to understand how or whether this
24 issue is relevant to the analysis that we have to do
25 in this investigation.

1 For instance, some of the capital that was
2 invested in the industry at the time of the original
3 investigation is no longer there. Are you arguing
4 that existing producers should now be earning profits
5 high enough to compensate for capital losses that were
6 incurred as other firms left the industry?

7 MR. KAPLAN: No, I am arguing -- and I don't
8 think that arguing is the right word. I am just
9 pointing out that if an industry doesn't make its cost
10 of capital, it will shrink, and that indicator should
11 be an important indicator for you to look at in
12 determining whether investment will be harmed in the
13 future.

14 There is one other very important point.
15 This is a return based on a situation where the
16 industry has protection, and if you will look -- and I
17 don't know if those numbers are confidential. There
18 are not huge gaps. They did not make the cost of
19 capital. It is not incredibly below.

20 But what you should be looking at is what
21 would happen should the orders be removed, and prices,
22 and shipments, and profits falls. And then I think
23 you would find that the returns of the industry would
24 be significantly below the weighted average cost of
25 capital, and that would lead to an inability to find

1 the funds either internally or externally as capital
2 markets would seek higher rates of return in other
3 industries.

4 COMMISSIONER PEARSON: Mr. Vaughn.

5 MR. VAUGHN: Yes. Commissioner Pearson, I
6 would just like to kind of address the legal aspect of
7 your question.

8 COMMISSIONER PEARSON: Okay.

9 MR. VAUGHN: One of the factors that the
10 Commission is supposed to consider is vulnerability,
11 is this industry vulnerable to material injury. And
12 we believe that in looking at this industry, and
13 trying to determine whether or not it is vulnerable,
14 it is very relevant to say, okay, let's look at this
15 industry over this period of time.

16 How has it done once you take into account
17 that it was hit by unfair trade in 1998 and 1999; and
18 once you have taken into account the problems that
19 they had in terms of some of the low demand years in
20 2002 and 2003 that Mr. Durham talked about.

21 Once you look at it in that context, and
22 then you think about the type of investments that they
23 have to make, the type of return that they need to get
24 on their money in order to stay in this business, and
25 when you look at the performance of the industry in

1 that sort of context, we believe that goes directly to
2 your analysis of vulnerability.

3 And that if you have an industry as Mr.
4 Kaplan was saying that has effectively been in an
5 almost liquidating position throughout that time
6 period, we respectfully submit that goes directly to
7 the issue of vulnerability.

8 COMMISSIONER PEARSON: Mr. Hecht?

9 MR. HECHT: If I could just add that so much
10 of the information on record here is confidential
11 given the nature of what we have got, but your
12 original question, I think we can address the
13 methodology that was used, and I do not think it runs
14 into the issue that you are talking about.

15 But I would say legally that I think to the
16 extent that you have a producer exit the industry
17 during the course of a review, I do think that is
18 relevant to what you are looking at. Here we had a
19 producer that was weakened as you know from prior
20 reviews.

21 That was something that was discussed at the
22 last review and did end up exiting the industry. I
23 think it was weakened from unfair trade and also had
24 some other problems and issues. But I did want to
25 point out that I do think that is relevant. As a

1 general matter, I would not want to convey that it is
2 not.

3 COMMISSIONER PEARSON: Mr. Schagrin.

4 MR. SCHAGRIN: Commissioner Pearson, I would
5 also echo in part the point that Mr. Hecht was making.
6 We know that the Commission has to in determining
7 recurrence of injury, has to look at a recurrence of
8 injury to industry that exists at the time that you
9 make your decision.

10 But it is certainly relevant as you are
11 assessing the impact on an industry, and the ability
12 of members of an industry, and their decisions on
13 investments in light of unfair trade practices, that
14 when you have producers exiting an industry, anyone
15 else remaining in the industry always is faced with
16 this option of should I buy this company that just
17 shut down.

18 Should I expand my business by buying Gulf
19 States Tube, as an example in this industry. And when
20 they make the decisions not to make those investments,
21 they are looking at their opportunity to make a return
22 on that investment, and I think here, where during the
23 early part of the POR you had members of the industry
24 exiting the industry, and no one else in the industry
25 deciding to purchase and invest in those assets, I

1 think that is relevant and is one way to look at it.

2 The fact that all these people had exited
3 the industry also happened to have been my clients,
4 and which makes it additionally painful. But the fact
5 is that people didn't want to purchase these
6 facilities and reopen them.

7 COMMISSIONER PEARSON: Right. But as I look
8 at the record, I am seeing some contradictory evidence
9 here that is making it hard for me to get my arms
10 around this cost of capital issue. Without mentioning
11 specific numbers, you have for both the large and
12 small diameter pipes greater production capacity at
13 the end of the period of investigation than you had at
14 the beginning.

15 One would infer from that that there has
16 been net investment in the industry during that time.
17 In addition, we have the statements this morning by
18 Mr. Lindgren that his firm invested a significant
19 amount of money in a conscious decision to get into
20 this industry during the period of review.

21 And unless we are going to reach the
22 conclusion that Mr. Lindgren is a poor businessman, we
23 probably ought to instead assume that he thought, or
24 his firm believed, that they could make a reasonable
25 return on that investment.

1 And based on what we have seen in the POR
2 that probably was a correct assumption. So why should
3 we be worrying about this concept of cost to capital.
4 Doesn't the market take care of all of this?

5 I mean, if somebody makes a bad investment,
6 the stock value goes down, and the cost of capital
7 drops, and the returns that are earned are adequate to
8 support that lower cost capital. Mr. Lindgren.

9 MR. LINDGREN: Commissioner Pearson, I would
10 say that we made the investment based on a continued
11 fair market, and maybe antidotally I could say that
12 right after the July 2002 acquisition that we
13 seriously questioned our decision, very seriously
14 questioned.

15 MR. KAPLAN: I think you are absolutely
16 right. The market will take care of it. The market
17 took care of two companies that left the industry.
18 Now if you have an industry that is about making
19 returns that are equal to its cost of capital, you
20 will see investment.

21 You will see some depreciation, and some
22 people entering, and other people making new
23 investments. And that is a situation now, where
24 relief is in place. We have heard testimony that
25 there will be increased imports due to the excess

1 convertible capacity in the subject countries.

2 We have seen a price gap, and we have seen
3 many people on the other side not show up at all to
4 contradict the conclusion that I just made. And my
5 point is that when those things occur, you will then
6 see a rate of return that is significantly below the
7 weighted average cost of capital, and you will see
8 movements in the industry that are similar to the
9 beginning of the POR, where people exit, or investment
10 decisions were made not to invest in particular
11 facilities.

12 Now, even in declining industries,
13 investments are made on occasion. You wouldn't expect
14 to see no investments whatsoever. A particular
15 investment of marginal revenue might be greater than
16 its marginal cost, and that investment will be made.

17 People will do maintenance or other capital
18 investments. But will the industry shrink or will the
19 industry expand? Will the industry as a whole be able
20 to draw funds, or will the industry as a whole not be
21 able to draw funds.

22 And the answer is right now it is a little
23 bit below break even over this very long period of
24 time. And what we will see should the orders be
25 removed and low priced imports enter the market, are

1 returns over the next period and cycle which will
2 unlikely meet the weighted average cost of capital,
3 meaning a shrinking industry.

4 And to the extent that the lawyers tell me
5 that a shrinking industry means a recurrence of
6 injury, then you meet that threshold.

7 COMMISSIONER PEARSON: Mr. Vaughn, you had a
8 comment before my light goes off?

9 MR. VAUGHN: Yes. Again, to kind of address
10 the legal point, the question is how should you guys
11 be looking at this industry, and what you are going to
12 be hearing apparently this afternoon based on the
13 opening statement from the other side is that really,
14 they are going to try to get you to focus only on the
15 very end of the period of review.

16 And there is going to be references to rate
17 of returns, and comparing to Microsoft, and things
18 like that. I would suggest that is a very simplistic
19 way of looking at this thing.

20 In order to get a sense of this industry,
21 you have to get a sense of how the industry has done
22 over time. And I think you have heard from the
23 testimony that is how these guys are looking at it,
24 and that is how the Commission should look at it.

25 COMMISSIONER PEARSON: That's -- although in

1 other investigations, we have not put so much time and
2 energy into the cost of capital. I don't think in any
3 other hearing that I have asked the sorts of questions
4 that I am trying to ask here.

5 It is not clear to me. Unless the cost of
6 capital for this industry is somehow different or
7 deviates from the average of industries that would come
8 before the Commission, why should we look at that
9 issue here?

10 Why not just look at the underlying trends
11 that we see in the record and make the decision based
12 on that. That's what I am trying to deal with, and my
13 time has expired, Mr. Chairman.

14 CHAIRMAN KOPLAN: Thank you, Commissioner.
15 Commissioner Aranoff.

16 COMMISSIONER ARANOFF: That you, Mr.
17 Chairman, and I join my colleagues in welcoming all of
18 the witnesses here this morning. I want to start with
19 some basic questions about the product or products
20 that we are looking at today.

21 As I was thinking about this case, I was
22 reminding myself that when we look at welded pipe, we
23 usually consider standard pipe, line pipe, not to
24 mention OTCG, all to be separate like products
25 produced by separate industries.

1 But as a historical matter, we haven't
2 really done that with welded pipe, except for OTCG.
3 But I did note that in most of the testimony this
4 morning, and talking about the two products before us,
5 people were talking about line pipe.

6 And so I wanted to ask some of the industry
7 witnesses to tell me what are the products that you
8 produce within this range of domestic like products,
9 and to what extent when you talk to me about line
10 pipe, are you talking about only a subset of the
11 products that the industry makes, and how the
12 conditions may be different.

13 For example, with respect to how the product
14 relates to demand in the oil industry should be
15 different for line pipe than for standard pipe.

16 MR. LELAND: Yes, ma'am. I am Martin
17 Leland. I think I can answer part of your question
18 here, and then maybe we could open it up to discussion
19 to get to the rest of it. I hope so anyway.

20 We do mention line pipe. We use the term a
21 lot of times on seamless, and in our house, we use
22 standard pipe and line pipe almost interchangeably,
23 because it is made on the same -- the line pipe and
24 the standard pipe is made on the same facility.

25 And what we have learned to do over the

1 years, and what has helped our distribution, is that
2 we have learned how to make a product, as does our
3 competition, that we call quadstencil. We put four
4 stencils on the pipe.

5 This pipe then can be used in many different
6 applications because it meets all the properties of
7 ASTA106, Grade B, which is a high temperature
8 application. It meets ASTM A53, Grade B, which can be
9 used in many applications not related to the line
10 pipe.

11 It can be used as structural and that sort of thing.

12 Then we make API, Grade B, and X42, which
13 gives you a 42,000 minimum yield strength. So now in
14 one piece of pipe, Larry, or Jim, or John, can stock
15 one piece of pipe, and they can use it for multiple
16 applications.

17 Instead of in the old days, where they had
18 to stock four different pieces of pipe in order to
19 take care of four separate markets. So we make it,
20 and then we do interchangeably use standard pipe and
21 line pipe, because really that product is one and the
22 same.

23 Once you get to the project pipeline, you
24 get into API and grades higher than X-42, and that is
25 your project pipeline, and we call that line pipe, and

1 that is what you would think would be as you think of
2 line pipe, that is a product that is used in the Gulf
3 of Mexico, and it is used on land to transmit oil or
4 gas across country, or tie into lines.

5 COMMISSIONER ARANOFF: Okay. Thank you, Mr.
6 Leland.

7 MR. LELAND: Does that help?

8 COMMISSIONER ARANOFF: Yes, that is very
9 helpful. I had always been told that there was sort
10 of a hierarchy of preference in this industry. That
11 OTGC, that you make the best profit when the market is
12 good, and you sell as much as you can. But it is
13 pretty prone to boom and bust cycles.

14 And that sort of the next step down was line
15 pipe, which can also have boom and bust cycles, but
16 maybe not quite as pronounced. And then sort of
17 everything else, which is more subject to normal
18 economic business cycles. Is that a fair description
19 of how the industry operates, or both of these
20 industries?

21 MR. LELAND: Again, Martin Leland. And we
22 love to make seamless standard line pipe. It is a
23 good product for us. Keep in mind that in oil
24 country, you will see the price differential per ton
25 is higher, but keep in mind that you have got to

1 thread it, and you have to couple it. In general, you
2 have to heat treat it, and those kinds of things.

3 Standard pipe runs off of your mill, and you
4 have nice walls. You have good ODs, and you can get
5 nice runs because each one of these guys buy the same
6 thing. So you can get a nice product run.

7 At the end of the day, our profitability,
8 and the need for line pipe, we like to make it, and as
9 V&M Star said, we can't make a hundred percent oil
10 country, and we can't make a hundred percent standard
11 line pipe. We need to run them both to make our
12 facilities work.

13 And we try, and we have an obligation to
14 these people to sell them standard line pipe; and we
15 have an obligation to sell to our oil country people
16 oil country. So we need to be from a marketing
17 standpoint, we need to be in both markets.

18 COMMISSIONER ARANOFF: Okay. Well, that
19 takes me to my next question, which has to do with
20 capacity utilization. If you look at our record, the
21 numbers are confidential, but the capacity utilization
22 figures during our review period are largely lower
23 towards the later part than they are towards the
24 earlier parts, which seems somewhat inconsistent with
25 the story that we have been hearing, and certainly

1 reading in all of our newspapers about what has been
2 going on in the steel sector.

3 What can you tell me about what is going on
4 there, and does it have anything to do with the way
5 that the Commission asked you to allocate your
6 capacity in this case?

7 MR. BROGLIE: I will start again on
8 capacity. We have three facilities that we make
9 standard line, and this product on. The one facility
10 is a smaller OD. We are currently working one shift
11 per day on that facility. So there is plenty of room
12 there to expand that production if required.

13 On the other facilities, we are not full.
14 There is a higher percentage of capacity being used
15 for those other two facilities, but there is still
16 room to increase production if required.

17 COMMISSIONER ARANOFF: And Mr. Hecht.

18 MR. HECHT: Yes, I guess just on that point
19 and on a couple of points. One on allocation. Again,
20 that would be company by company, and is difficult to
21 do I think in this setting. I would say that I do not
22 think that is the likely explanation, but we will
23 endeavor to address that for our companies in the
24 post-hearing.

25 I think the rise of non-subject imports

1 certainly is part of what you would want to look at in
2 that respect as well.

3 COMMISSIONER ARANOFF: Okay. I appreciate
4 that answer and I will look forward to some company by
5 company answers. One question that I wanted to ask to
6 the distributors who have joined us in relatively back
7 in the room, normally when we have -- well, normally,
8 but in some cases, when we have purchasers turn up in
9 support of continuation of an order, they will often
10 tell us that they support the order because they feel
11 the loss of their very viable domestic supply base,
12 and there is sort of nobody out there who could really
13 substitute for that effectively.

14 Yet in this case, I heard some of you
15 testify that some of these multinational companies
16 that have taken over producers in some of the subject
17 countries are reliable, and they are deep-pockets, and
18 they are going to deliver to you.

19 So if you combine the fact that they are
20 maybe these reliable global suppliers out there, and
21 that U.S. prices are pretty high right now, I guess I
22 would ask you why are you here in support of the
23 continuation of these orders?

24 MR. DURHAM: I am Jim Durham with Dixie
25 Pipe, and I think that one of the reasons and one way

1 that I would answer that is that regardless of who
2 would be bringing pipe in here, when more pipe comes
3 in, it is going to have a negative impact on pricing.

4 And our company carries an inventory that is
5 many, many, many millions of dollars, and any new
6 manufacturer that enters the market, there is going to
7 be more supply.

8 And we in the past six months, and in the
9 last half of last year, and so far in this year, we
10 have seen I would say an oversupply of this kind of
11 product. And we do business now with Mittal, and we
12 want to continue to do that, but we simply see that it
13 is just going to be additional supply.

14 I would also have a little heartburn if U.S.
15 Steel wanted to double their capacity as an example,
16 because while we support U.S. Steel, and we buy a lot
17 of pipe from U.S. Steel, if they made the decision to
18 double their capacity, we are not going to be able to
19 buy a lot more pipe.

20 And I think that would be true of most of
21 the distributors. So it is not necessarily anything
22 so much against a particular mill as it is just the
23 fact that there is oversupply.

24 COMMISSIONER ARANOFF: Okay. I appreciate
25 that answer, and I am glad that you talked about

1 inventory values. That was where I thought you were
2 going to be going.

3 I wonder -- and perhaps I will come back to
4 this in the next round of questions. We don't have on
5 this panel representatives of purchasers who are not
6 distributors, and whether they would have a different
7 perspective, or whether they might in fact say the
8 same things.

9 I don't know if anybody has a perspective on
10 that, but we can come back to it, or you can respond
11 in your brief. Mr. Hecht.

12 MR. HECHT: A quick comment on that. First,
13 as something that I said in my opening statement, we
14 really do urge you to look carefully at the purchaser
15 responses which come from a pretty broad array of
16 people in the market, and we think tell a very
17 powerful story, a confidential story unfortunately.

18 Secondly, I think most product is sold
19 through distributors, and that is something that is
20 pretty clear from the record as well. So while there
21 is perhaps some direct end-user, it is mostly through
22 distribution.

23 COMMISSIONER ARANOFF: Okay. Thank you very
24 much, and my time is up.

25 MR. SHOAFF: Excuse me, but may I make one

1 comment, please, just to answer your question?

2 COMMISSIONER ARANOFF: Oh, sure.

3 MR. SHOAFF: John Shoaff, for Sooner Pipe.
4 I think another way to look at your question is that
5 we as the domestic distributor, we really rely on U.S.
6 Steel and the domestic producers to be there all the
7 time for us, and we have already talked about in many
8 of these comments here about what a huge market this
9 is.

10 And sometimes foreign producers tend to come
11 in and out of the market as it fits them. Right now,
12 you know, we are in a market where our price is very
13 high. It is very attractive to them because of that.

14 There has been some comments made that they
15 can come in here at a higher price and still be below
16 the domestic number. So as domestic distributors, we
17 have the firm and full commitment of the domestic
18 suppliers that they are going to be there all the time
19 for us, in the good times and in the bad.

20 COMMISSIONER ARANOFF: Thank you very much.
21 Mr. Chairman.

22 CHAIRMAN KOPLAN: Thank you, Commissioner.
23 Thank you all for your testimony and answers to our
24 questions thus far. I will begin with the domestic
25 producers and I am going to start talking about small

1 pipe with you all.

2 Skadden's brief claims at page four that of
3 all the export markets in the world the U.S. market is
4 certainly one of the most attractive and probably the
5 most attractive from the standpoint of the subject
6 foreign producers.

7 The basis for that statement is bracketed in
8 the sentence that follows in the brief, although
9 frankly, I don't quite understand why that sentence is
10 bracketed. Mittal's brief, at page 17, claims that
11 there is strong demand for the energy market, which
12 they expect will continue for the foreseeable future,
13 and argues that foreign markets in which the subject
14 countries participate are also enjoying high prices
15 due to strong demand for seamless tubular products,
16 including small diameter, CASSLP pipe, and therefore,
17 have no economic incentive to significantly undersell
18 U.S. products, or to depress or suppress the price of
19 small diameter CASSLP pipe in the United States. That
20 is a quote from their brief.

21 So I have a two-part question. First, will
22 you provide supporting data covering the review
23 period, comparing prices in the United States, to
24 prices in other major markets for small diameter
25 CASSLP pipe.

1 MR. HECHT: We will certainly endeavor to
2 provide anything that we can on that, yes.

3 MR. SCHAGRIN: Mr. Koplan, while your
4 question was on small diameter, I think it applies
5 equally across small and large. In terms of the data
6 sources that I have seen, a lot of the international
7 research companies tend to talk about price levels of
8 seamless line pipe, rather than small or large.

9 And I think we will do things. One answer
10 now, and then we will answer with data in our post-
11 hearing. I would disagree with the Mittal comments in
12 their brief that pricing is very strong on a worldwide
13 basis. In fact, everything that I have read in these
14 research reports is that pricing for seamless line
15 pipe in most of the world markets has fallen in the
16 one \$200 a ton range over the past, say, six months.

17 That's because of a huge export increase by
18 new capacity Chinese mills, and we will provide those.
19 And unfortunately those research reports, they charge
20 folks in the industry just a fortune -- you know, 20,
21 30, 50 thousand dollars a year to get those.

22 So we have to treat them confidentially, but
23 we will supply that in our post-hearing brief, and
24 demonstrate how the prices have fallen around the
25 world, and how much less they are than pricing in the

1 U.S. market and/or the Japanese market.

2 MR. NARKIN: Chairman Koplan, Stephen
3 Narkin, Skadden Arps. At the beginning of your
4 question you wondered why certain information was
5 bracketed. On this question of price arbitrage and
6 differences between price in different markets --

7 CHAIRMAN KOPLAN: I wondered why that
8 particular sentence is bracketed.

9 MR. NARKIN: I was heavily involved in
10 decisions to make the bracketing. It's because much
11 of the information comes out of the questionnaire
12 responses, the foreign producer questionnaire
13 responses, and we just did not feel comfortable saying
14 very much publicly about it.

15 If we could discuss with staff perhaps their
16 view on this issue further if there's things that you
17 think should be made public, but that was the only
18 reason for that.

19 CHAIRMAN KOPLAN: I tell you and I
20 appreciate your saying that because I've got
21 experienced counsel here on both sides today. I would
22 appreciate for purposes of post-hearing if you all
23 would provide what you understand the bounds of
24 bracketing to be. If you could do that for purposes
25 of post-hearing I would appreciate it.

1 I know where the information in that section
2 of your brief came from. I still am struggling with
3 that particular sentence, and I didn't think that
4 there was a problem with that --

5 MR. NARKIN: We'll go back and look at that.

6 CHAIRMAN KOPLAN: -- so maybe you could help
7 me out and do that for me.

8 MR. NARKIN: Certainly.

9 CHAIRMAN KOPLAN: I have a second part to
10 the question, though, that I had and that is if the
11 witnesses can tell me now whether there is some level
12 of premium available to domestic producers because of
13 an advantage as to availability, or reliability of
14 delivery, or any other factor that we should take into
15 account when comparing prices for domestic pipe to
16 prices for subject imports in the U.S. market.

17 Is there any such level of opinion?

18 MR. DURHAM: Yes. This is Jim Durham with
19 Dixie Pipe again. From a reliability and a
20 deliverability standpoint the lead times are shorter
21 on domestic material than what they are on import
22 material.

23 CHAIRMAN KOPLAN: I understand that.

24 MR. DURHAM: There continue to be companies,
25 end users that prefer domestic product, although that

1 is changing and we see I would say almost every day
2 there's more and more companies that will accept
3 material from anywhere in the world.

4 CHAIRMAN KOPLAN: Thank you for that.

5 Counsel, Mittal argues at pages 8 and 9 that
6 small diameter CASSLP pipe face very few barriers in
7 other countries and Romania's anticipated entry in the
8 European union in 2007 will terminate the anti-dumping
9 proceeding in the EU against remaining in line pipe.
10 They anticipate that it's going to take place by
11 January 1, 2007. That's at page 9, Exhibit No. 2.

12 Similarly they claim at page 10 that in 2004
13 the Czech Republic became a member of the EU which
14 then lifted trade restraints against the seamless pipe
15 export. They state that resultantly the data shows a
16 larger natural increase in comparison to Czech exports
17 to the EU in the original investigation.

18 If accurate doesn't this lessen the
19 likelihood that if we revoke increased exports to the
20 U.S. as subject seamless pipe from Romania and the
21 Czech Republic would resume?

22 Mr. Narkin? Mr. Vaughn? I'm sorry.

23 MR. VAUGHN: Stephen Vaughn, Skadden, Arps.
24 I think, Chairman Koplan, in looking at the -- first
25 of all I think that is a good point if accurate.

1 We've seen there's been surprising
2 developments in European politics recently and that
3 could happen again, but one of the things that the
4 Commission did hear was it collected data regarding
5 the shipment that these producers make within Europe
6 and the shipments to which they made to other markets,
7 and so we can see in the confidential data whether and
8 to what extent these companies are also engaged in
9 exporting outside the EU.

10 While I would like to address this more in
11 the post-hearing brief, but I would state at this
12 point that we believe that an analysis of the evidence
13 shows that regardless of what happens vis-a-vis the EU
14 it is very likely that these producers will be
15 shipping outside the EU and we believe that those
16 exports are likely to come to the United States.

17 CHAIRMAN KOPLAN: Mr. Hecht?

18 MR. LELAND: Yes. Martin Leland with U.S.
19 Steel.

20 CHAIRMAN KOPLAN: Go ahead, Mr. Leland.

21 MR. LELAND: Yes, sir. Just to follow-up a
22 little bit from my experience with U.S. Steel and the
23 marketing side of it and what I've seen happen many,
24 many times in these type of situations my opinion in
25 the marketing position is that there's no way that I

1 can fathom that they could come into this market at
2 the domestic price and be successful.

3 There's no reason that any one of our
4 distributors that I can see would purchase from them
5 over us, deliveries, everything else being the same.
6 The second thing is if they come in at the level of
7 the third world that's out there now they're going to
8 be \$200 or \$300 under the market and that's the way
9 they're going to have to enter the market.

10 So they would have to be disruptive in my
11 opinion to come in here at lower prices and then we
12 would have the scenario of what I consider dumped
13 prices in this marketplace from not only the --

14 CHAIRMAN KOPLAN: Thank you.

15 Mr. Hecht, I saw your hand up.

16 MR. HECHT: Yes. Just to follow-up briefly
17 the data you've collected on the export markets that
18 these folks shipped to in addition to the excess
19 capacity information you've collected, we think that
20 would be very relevant to that question and we'll
21 brief that.

22 With regard to Romania as Stephen mentioned
23 I think there has even been discussions in the press
24 recently about whether they're meeting the milestones
25 they need to exceed. I think there is some question

1 about that. The fact that they are under
2 investigation in the EU for dumping this product is I
3 think also very relevant to your determination here.

4 When you hear talk about them becoming
5 privatized and changing their behavior I think that's
6 pretty telling.

7 CHAIRMAN KOPLAN: Thank you. I thank you
8 for those answers. I see my red light's about to come
9 on, so I'll turn to Vice Chairman Okun.

10 VICE CHAIRMAN OKUN: Thank you, Mr.
11 Chairman.

12 Let me join in welcoming all of you here to
13 this hearing, and also for all the testimony and
14 answers you've provided thus far. I found it very
15 useful. If I could just follow-up on a couple of data
16 requests with regard to pricing in other markets which
17 is to the extent that you can collect any other
18 information on demand trends in any other markets that
19 would be particularly helpful.

20 To the extent that you've relied heavily on,
21 again, a China argument and while we have production
22 figures for China to the extent that you can provide
23 consumption figures that would be helpful as well to
24 help put in context what's going on in the other
25 markets and what we're likely to see with regard to

1 pricing in those other markets.

2 If you could comment for me when you do that
3 whether you believe that the EIA sources, the energy
4 information that are publicly available -- something
5 that we can have as opposed to the proprietary
6 information that's very extensive and we understand
7 that -- whether you think that is good data in terms
8 of demand forecasts both for the United States and for
9 overseas markets.

10 MR. HECHT: We will do that.

11 VICE CHAIRMAN OKUN: Appreciate that. I
12 wanted to go back to the pricing questions to talk
13 about or to better understand what would happen in the
14 reasonably foreseeable future with prices.

15 Mr. Durham, I wanted to go back to something
16 that I heard you say at least once which is when more
17 product comes in pricing will go down. If I look at
18 the record during this period of review we saw more
19 product come in. I mean, the nonsubject penetration
20 is big and a lot of money being made out there.

21 So I'm trying to understand to that comment
22 and I heard similar comments from others, so others
23 can comment as well which is if demand projections are
24 still good, if apparent consumption is high do you
25 really expect prices to go down if more product comes

1 in? That's what I'm trying to understand.

2 When we've already seen a lot of nonsubject
3 product come in -- I'm trying to understand your
4 comment. If prices haven't gone down, in fact they've
5 gone up and up -- use your mic, please.

6 MR. DURHAM: Sorry. Let me address
7 particularly Chinese. It certainly has come down in
8 price in the last two quarters on pricing. A fairly
9 large decrease in price.

10 I think if you have a market where the
11 demand is the same, it's steady and from a supply
12 standpoint you have material coming in from overseas
13 whether it is the subject company's, whether it's
14 nonapproved, approved, Chinese, whatever it is, unless
15 you say that you have product that's coming in that's
16 20 percent of the market and that price is \$500 a ton
17 and domestic price is \$1,000 a ton and then you see
18 this material coming in from overseas that's 50
19 percent of the market, okay, and none of the prices
20 change and then it goes to 60 percent of the market
21 you're going to see a decrease in price in the market
22 because what's going to happen is that from a
23 distributor's standpoint -- and that's what I'm just
24 as concerned about as I am from a mill standpoint --
25 you'll see distributors that will make these lower-

1 priced buys and from a cashflow standpoint they won't
2 be able to hold the material until the market changes
3 or until they can make the kind of margin off of it
4 that they're used to making off of it.

5 So you'll see them sell that material at
6 basically what they've paid for it, which we see this.
7 This does happen. It happens fairly often. Sometimes
8 they sell it for less than what they paid for it
9 because they've got to pay the bank for the money that
10 they've borrowed from a cashflow standpoint.

11 VICE CHAIRMAN OKUN: Okay. Well, I want to
12 make sure I understood the first part of what you're
13 saying when you saw prices going down. You see
14 Chinese prices going down, not the prices you are
15 selling for.

16 In other words I'm trying to understand the
17 competitiveness and the price pressure you're talking
18 about from the Chinese as you see Chinese prices going
19 down, but not yet having affected what we see in the
20 record even though at least in small diameter the
21 Chinese have been in here in big numbers, number one
22 in I think at least three of the last four years on
23 the data I'm looking at.

24 MR. DURHAM: Well, we've seen Chinese prices
25 go down in the fourth quarter of last year and in the

1 first quarter of this year and that would be -- in the
2 fourth quarter of last year meaning that's when they
3 would take an order, roll the pipe and ship.

4 So that pipe would have hit the USA either
5 probably in December of last year, or maybe January or
6 February of this year, so it really hasn't hit here
7 yet in large numbers. We've also seen prices go down
8 not as dramatically as they have from China, but we've
9 also seen prices go down a little bit on these
10 products from other parts of the world.

11 Not to the extent they've gone down from
12 China.

13 VICE CHAIRMAN OKUN: I think one of the
14 Commissioner's had asked about would you see subject
15 imports displace nonsubject imports when they re-enter
16 the market. Talk to me just in terms -- and let's
17 talk about small diameter in China -- of the subject
18 countries. You expect the subject imports to displace
19 China at those prices, at the prices you see China in
20 the market?

21 Because I think, Mr. Shoaff, you had said
22 that not all of them are as accepted in the market
23 right now.

24 MR. SHOAFF: Yes. I think my response there
25 was that we would see that replace the domestic market

1 more than the nonsubject countries that we're talking
2 about because it would be kind of more of the same. I
3 will say, though, that of the subject countries Japan
4 and Mexico for instance as we've said are very, very
5 well-accepted.

6 There's no questions on quality there. They
7 would be well-accepted in the marketplace, but the
8 displacement would take place at the domestic level
9 and it would like I said just be more of the same.

10 I mean, as Jim said we're already seeing the
11 Chinese imports negatively affect margins I think of
12 distribution and we would accept the same thing from
13 the subject countries. It would just add more of the
14 same.

15 MR. SCHAGRIN: Vice Chairman Okun, this is
16 Roger Schagrin. If I could just make a point on the
17 evidence on the record about the impact of nonsubject
18 imports on the industry when nonsubject imports are
19 increasing significantly in 2005 and this is just as
20 to large diameter.

21 As nonsubject imports increased one of the
22 impacts you can see from my client, V&M Star, is that
23 they haven't increased prices since February of 2005
24 and that's largely in response to increased import
25 competition in the market. So the nonsubject imports

1 have had an impact on domestic industry pricing by
2 virtue of their larger volume.

3 The second is that in this particular
4 product area and maybe more particularly is the large
5 diameter where a lot of the product is used for in the
6 Gulf of Mexico shallow orders that sell a lot of it,
7 1,500 feet and less, are bringing product, oil or gas
8 in from the Gulf to refineries on shore or a place
9 that can be processed on shore and that is that the
10 major oil companies utilizing that, they are going to
11 be hesitant to use a nonapproved product for that type
12 of application, an underwater pipeline.

13 So some of these nonsubject imports are not
14 going to have as much of an impact on the domestic
15 industry as if you allow the Mexicans and Japanese,
16 both of whom are on all of the approved manufacturers
17 lists for the major oil companies. They will have an
18 immediate impact because there the competition is
19 direct between the Mexican and Japanese manufacturers
20 and the domestic producers.

21 So to a certain extent subject producers'
22 impact on the domestic industry is somewhat more
23 dramatic than nonsubject because of this issue of
24 approved or nonapproved suppliers.

25 VICE CHAIRMAN OKUN: Okay. You had

1 mentioned the price increases for your client that had
2 not had a price increase since February 2005. Are any
3 pending, any price announcements made in large
4 diameter price that you're aware of?

5 MR. SCHAGRIN: I think U.S. Steel had
6 commented on that.

7 VICE CHAIRMAN OKUN: Okay.

8 MR. LELAND: Martin Leland with U.S. Steel.
9 We have announced a price increase for effective April
10 \$50 a ton on large diameter and small diameter pipe.
11 Ten inch and smaller.

12 VICE CHAIRMAN OKUN: Same price increase for
13 both?

14 MR. LELAND: Same price increase for both.
15 It has not been accepted yet, so it will be
16 interesting to see in this market. We feel like the
17 market has good stability to it right now in order
18 that I've done this. It's just very interesting that
19 everybody seems to be in sync here.

20 The end user is doing very, very well, our
21 distributors have been doing very well, the mills are
22 doing very well, so we think -- but I mean, I could
23 take more business for April. Don't misunderstand.
24 I'm a salesman. I can take more business, but we've
25 got a nice business right now and we think that the

1 market will accept the price increase.

2 It will totally depend on what our
3 competition, both domestic and the imports coming in,
4 if they follow or don't follow. So it hasn't been
5 finalized yet, but it is out there.

6 VICE CHAIRMAN OKUN: Mr. Lindgren?

7 MR. LINDGREN: Commissioner Okun, if I may
8 add that we have not advertised or announced a price
9 increase.

10 VICE CHAIRMAN OKUN: Appreciate those
11 comments. My red light has come on. Thank you.

12 CHAIRMAN KOPLAN: Thank you.

13 Commissioner Hillman?

14 COMMISSIONER HILLMAN: Thank you. If I
15 could follow-up just a little bit on this issue of
16 these AMLs, these approved lists. We've seen this in
17 a number of cases, we've seen this a number of times
18 with this product in specific. I'm not sure we've
19 ever really gotten a very good handle on exactly how
20 significant they are.

21 I mean, what portion of sales are subject to
22 these AMLs, whether they're more important in certain
23 segments of this industry than others. I mean, is it
24 really only the oil and gas people that really care
25 about them? Help us, at least help me understand a

1 little bit first of all how significant are they from
2 either a producer or a distributor standpoint.

3 What portion of your sales are subject to
4 this requirement that the manufacturer be on one of
5 these approved lists?

6 MR. BINDER: Larry Binder, Red Man Pipe and
7 Supply. We furnish standard and line pipe pressure
8 pipe to several end users such as Exxon Mobil, Conoco
9 Phillips, Marathon, which most of their work is done
10 in the refineries or the chemical plants. Each end
11 user has done a study of the mill that they put on
12 their AML.

13 They approve it, their technical support
14 approves that mill and then when they give us a
15 request for a product what we do, we go through the
16 listed AML for that specific company and then we have
17 to furnish pipe within those parameters of that AML.
18 They have from maybe as many as 10 or 15 mills on that
19 or there may be three or four, but when we buy
20 inventory we have to look at our end use.

21 When we buy the pipe it has to meet the
22 majority of our end users' AML. I would venture to
23 say approximately 85 to 90 percent of our business has
24 to meet an AML.

25 COMMISSIONER HILLMAN: That's very helpful.

1 When you say mill is it client specific, or is it just
2 any U.S. Steel product would be deemed to meet the
3 AML, or you have to know actually which facility of
4 U.S. Steel it came out of or, again, foreign product
5 as well?

6 MR. BINDER: Even it gets to the extent in
7 some areas where one mill that may be approved -- just
8 say a company and they've got three mills -- but the
9 other mill may not be approved.

10 COMMISSIONER HILLMAN: Okay. All right. I
11 appreciate that.

12 MR. DURHAM: I'd like to comment on that,
13 please.

14 COMMISSIONER HILLMAN: Sure.

15 MR. DURHAM: I'm Jim Durham with Dixie Pipe.
16 I would say particularly for the Japanese I would
17 think that there would not be one AML that U.S. Steel,
18 or V&M Star, or Koppel is that the Japanese are not
19 on. I don't think there would be one.

20 COMMISSIONER HILLMAN: Okay. How about
21 Mexico, the Czech Republic, Romania?

22 MR. DURHAM: Not so much as you would see
23 the Japanese. You would see them on some of the AMLs,
24 but not to the extent that you would see the Japanese.
25 I think you might see some of the Czech Republic mills

1 on more of the major oil and gas companies,
2 particularly the oil companies, but not to the extent
3 of the Japanese, I do not believe.

4 We sell a little bit different customer base
5 than what Red Man would sell, and we don't see the
6 AMLs being as important. Our customer base is a lot
7 to other supply companies. Companies that will carry
8 pipe and they'll carry bells, and fittings, and
9 phalanges, and gloves, and paint, and so on and so
10 forth, but they won't carry much pipe. They'll buy
11 their pipe from companies like ourself.

12 That's a big part of our market.
13 Fabricators are a big part of our market. You'll see
14 fabricators from time to time that will say I want you
15 to supply pipe that's only on an Exxon or a Dow AML.
16 I would tell you from our customer base we see that
17 less.

18 COMMISSIONER HILLMAN: Less. I mean, we
19 heard 85 percent. What would you say your percentage
20 would be of customers that want AML product?

21 MR. DURHAM: Ours would almost be the
22 opposite.

23 COMMISSIONER HILLMAN: Okay. Fifteen, 20
24 percent?

25 MR. DURHAM: That's kind of interesting, but

1 that's probably what ours would be.

2 COMMISSIONER HILLMAN: Mr. Shoaff, would you
3 have a sense from your customer base?

4 MR. SHOAFF: I would be more towards his --
5 that we're not as heavy into the line pipe market as
6 my two colleagues here, but when we do see the project
7 bids from the majors it would tend to be a little bit
8 more toward the AMLs so I'd say maybe 50 percent.

9 COMMISSIONER HILLMAN: Help me understand.
10 Is the AML specific to a specific product? In other
11 words it's AML from this mill of U.S. Steel for,
12 again, one AML for line pipe, one for standard, one
13 for pressured, different for OCTG, or if the mill is
14 AML is it AML for all of their seamless tubular
15 products?

16 MR. SHOAFF: It can be both. I mean, it can
17 be product specific and it can be mill specific in
18 certain cases with different companies. Yes.

19 COMMISSIONER HILLMAN: Okay. All right.

20 Yes?

21 MR. LELAND: Martin Leland with U.S. Steel.
22 What we're seeing from our distribution base -- and
23 Larry and Red Man are unique in they service a lot of
24 refineries, petro chemical business -- you sell to
25 Exxon, Exxon's going to probably bow to for the AML.

1 Anadarco, Devon Oil and Gas could probably care less.

2 We see a lot more business going non-AML.

3 It's not a factor when our distributors bring us
4 business to quote, it's not you're up against AML
5 people. They tell us you're up against any pipe
6 anywhere. We see that more and more every day, but we
7 have to take into account the imports that are not on
8 AML.

9 COMMISSIONER HILLMAN: All right. From your
10 perspective as a producer do you have a sense of how
11 much of your product is sold to customers demanding
12 AML product?

13 MR. SHOAFF: I would say 30 percent of the
14 time they'd be alike.

15 COMMISSIONER HILLMAN: Go ahead, Mr. Clark.

16 MR. CLARK: Ronny Clark with V&M Star. I
17 would concur with that. It would be something in the
18 30 percent range for us, too.

19 COMMISSIONER HILLMAN: Okay. All right. I
20 appreciate those responses.

21 MR. RAMSEY: This is Mike Ramsey, again. I
22 would also say that Koppel Steel now faces a lower
23 percentage of AML situations.

24 COMMISSIONER HILLMAN: Lower than 30 or that
25 it's just lower than it used to be?

1 MR. RAMSEY: Lower than 30. We rarely see
2 that come up through our distributors. To them it's
3 all pipe.

4 COMMISSIONER HILLMAN: I appreciate those
5 answers. I guess if I can go to one other issue just
6 to make sure I understand it. It's always interesting
7 to have the elected officials come in and testify and
8 ask us to sort of put this human face on this case.

9 I have to say this is one of these ones that
10 I then go looking at the numbers scratching my head
11 saying they're feeling all this pain out there and yet
12 I'm looking at an industry where production is pretty
13 high or up, and profits are up, and prices are up and
14 yet then when I look down at that number on production
15 workers it's way down and productivity per hour is way
16 up.

17 What's going on? I just am trying to
18 understand how we've ended up with, again, I would
19 argue among the highest productivity per hour of
20 figures we've seen at any time in the data that we've
21 looked at and the lowest levels of employment
22 notwithstanding the reasonably high production levels.

23 MR. BROGLIE: Okay. In regard to the
24 productivity issues we've been working very hard on
25 reduction of workforce. I don't know if you remember

1 in the end of 2003 we had a major reduction in the
2 workforce as a result of our new contract between the
3 hourly folks and the management folks, so that's one
4 of the changes we've had in 2003.

5 COMMISSIONER HILLMAN: So is it contract
6 agreement as opposed to new technology coming on
7 that's allowing you to do a lot more with a lot less
8 people?

9 MR. BROGLIE: Yes. I can't speak for the
10 other producers, but we've had a reduction in the
11 workforce.

12 COMMISSIONER HILLMAN: Okay.

13 Go ahead.

14 MR. LELAND: Martin Leland with U.S. Steel.
15 The thing we look at -- I hear your comments and your
16 thoughts, but we feel or I feel very strongly and this
17 is such a cyclical business that the last thing that
18 we want to do is start adding shifts and adding people
19 knowing that two or three months from now we may well
20 have to lay those people off.

21 So we have to move very slowly before we can
22 start bringing in new people to do that sort of thing.
23 That may be why our productivity is excellent. We've
24 seen this thing crater so fast so many times and to
25 bring people in now to do that could be a big mistake

1 in my opinion.

2 COMMISSIONER HILLMAN: Mr. Lindgren?

3 MR. LINDGREN: Commissioner Hillman, if I
4 may add that our investments are well, in the short
5 time that we've owned V&M Star our investments are
6 always focused on increasing productivity and
7 increasing the quality of the product that we produce.
8 We need to do this we realize to stay competitive, but
9 I'm happy to say that our employment levels have not
10 decreased.

11 At the same time in fact they've increased.
12 We have also increased our productivity.

13 COMMISSIONER HILLMAN: Again, I realize that
14 the actual numbers are confidential, so to counsel if
15 there is anything in the record -- because this does
16 strike me as one of these unusual cases where we have
17 seen a pretty big shift over this POI -- if there's
18 anything further that you would want to add besides
19 the testimony that we've heard on this issue I'd
20 appreciate it.

21 MR. HECHT: We will.

22 COMMISSIONER HILLMAN: Thank you, Mr. Hecht.
23 Thank you, Mr. Chairman.

24 CHAIRMAN KOPLAN: Thank you.

25 Before I turn to Commissioner Lane, just a

1 housekeeping matter. If when each of you finishes a
2 response to a question you turn your mic off. I
3 understand from the secretary that's why on occasion
4 I'll hear a ripple affect on some other mic. So it
5 would be helpful if you make sure you click it off
6 when you're done answering a question.

7 Commissioner Lane?

8 COMMISSIONER LANE: Thank you. I have a few
9 questions and I'd like to start first with a question
10 about inventory. The presence of large inventory in
11 the large diameter pipe is hard to reconcile with the
12 statements that large diameter pipe are generally made
13 to order for specific customers, so why then do we say
14 large inventory of large diameter pipe if this is a
15 product that is made to order?

16 MR. SCHAGRIN: Commissioner Lane, maybe I
17 can intercept that because I know there's been some
18 change in the table. I don't know that the staff has
19 yet changed common in the staff report, but V&M Star
20 did correct -- I believe about a week ago had some
21 dated changes on inventory that were pretty
22 significant.

23 So I think the problem there was a data
24 problem caused by some mistakes on the original
25 response which has now been corrected and which I

1 think really removes that issue which you have
2 highlighted from --

3 COMMISSIONER LANE: So an issue that I saw
4 that jumped out at me and I remembered has now been
5 corrected?

6 MR. SCHAGRIN: I believe so, Commissioner
7 Lane.

8 COMMISSIONER LANE: Okay. Thank you.

9 MR. SCHAGRIN: We can look at the revised
10 and we'll talk to staff as well before submitting
11 post-hearing briefs and make sure that issue has been
12 properly addressed with the correct data.

13 COMMISSIONER LANE: Okay. Thank you, Mr.
14 Schagrin. If we look at the 2005 data we see a record
15 that indicates a current strong demand for the
16 product, strong profits and strong prices for the
17 subject prices. The law requires that we determine
18 whether revocation of the order will cause material
19 injury within a reasonably foreseeable time.

20 I would like for you all to address based
21 upon the record that we have now and the period of
22 time of the review what you think a reasonable period
23 of time is that we should be looking at for purposes
24 of determining whether or not material injury will
25 occur if the orders come off.

1 Mr. Schagrin, why don't we start with you.

2 MR. SCHAGRIN: I'd be happy to start,
3 Commissioner Lane. I think usually we look at this
4 segment of this industry would be typical of a steel
5 industry reasonable foreseeable being the next two or
6 three years. I think addressing the issues that you
7 talked about can't just look at the fact that demand
8 has strengthened in the last couple of years without
9 also looking at supply.

10 Here the big problem in this industry
11 because overall demand, it's still a relatively small
12 segment, you're talking about in the few hundred
13 thousand ton range, it can be overwhelmed by excess
14 supply in a very short amount of time. We know that
15 very large volume speaking for large diameter of
16 Japanese and Mexican product can be shifted to this
17 market in a very short period of time.

18 In addition to large volumes of new supplies
19 from new mills in China in particular that oversupply
20 is going to have very adverse impact on prices, it's
21 going to have an adverse impact on domestic production
22 or we would see both lower prices and higher per unit
23 costs having a dramatic impact on profitability and
24 that would all occur over a relatively short, within
25 probably a six month to 12 month period, which would

1 be well within a reasonably foreseeable timeframe,
2 which by the way the good thing about this review is
3 we've already seen this happen in this particular
4 industry during another period of strong demand which
5 was the period of 1997 and 1999.

6 Demand was strong during that time period.
7 The problem was an excess of unfairly traded import
8 supply. So that's how we would address those issues
9 in the reasonably foreseeable timeframe.

10 COMMISSIONER LANE: Mr. Hecht?

11 MR. HECHT: I would agree with Roger in
12 terms of the timeframe that the Commission has
13 typically looked at. I would urge you also to look at
14 another statutory provision which is analyzing the
15 industry in the context of the business cycle.

16 You've heard a lot of testimony today and I
17 think it is clear in this case that depressed results
18 even at a high end of the cycle can be just as
19 devastating as the low end of the cycle when you're
20 trying to look at earning your cost to capital over
21 time.

22 I guess the other fact I'd throw in is,
23 again, some of the distributor testimony as to just
24 how quickly things can change in this market given the
25 nature of the distributor relationship.

1 COMMISSIONER LANE: Going back to Mr.
2 Schagrin's answer assuming that the demands stay
3 strong, and assuming that the demand from the oil and
4 gas industry stay strong, and oil and gas prices stay
5 high, then are you saying that the one factor that
6 could affect this industry is an oversupply coming in
7 if these orders are taken off?

8 MR. SCHAGRIN: It's awfully difficult to
9 prognosticate on demand, but before I answer your
10 question, Commissioner Lane, with the assumption of
11 continued strong demand for this particular product on
12 the large diameter side -- it is so natural gas-
13 focused and just two months ago the price of natural
14 gas in this country because it's a published commodity
15 was nearly \$16.50 an MCF, and you had everybody
16 talking about massive shortages and the price could go
17 to \$20 and the sky was going to fall in.

18 Today it's \$6.80. It has fallen by
19 virtually \$10 over a 60 day time period. Now, we all
20 know how warm this winter has been. I don't think any
21 of us regret that, but that's what the big impact has
22 been.

23 If that price of natural gas goes down below
24 \$5 we're going to see what all these forecasts about
25 strong markets for oil and gas drilling and for need

1 for more line pipe product, they're all going to go
2 out the window. We've seen this before. We've seen
3 the price of natural gas fall dramatically.

4 The price of natural gas can act very
5 independently from the price of oil because in the
6 United States 85 percent of our drilling is for
7 natural gas and only 15 percent for oil. So I'm
8 concerned about just strong demand going forward. I'm
9 not sure we're going to have continued strong demand.

10 Assuming that demand does stay strong at the
11 current levels which historically is a pretty good
12 period for demand what would be the cause of a
13 recurrence of injury to the domestic industry would be
14 the increased supply of subject imports from the
15 subject countries, in my case Japan and Mexico, if the
16 orders were revoked.

17 That's why particularly given that Japan is
18 a goliath -- they're probably the second largest
19 industry in the world after China -- the fact that we
20 have to speculate or ask you to make adverse
21 inferences about what's going to come from Japan
22 because they haven't answered the questionnaires puts
23 us all in a little bit of a predicament.

24 That's why we rely so much on world market
25 pricing data and we'll address that further in our

1 post-hearing brief. Japanese are a very export-
2 oriented industry. Nothing is going to happen in
3 Japan to increase their home market consumption of
4 line pipe.

5 No matter how much the Japanese economy
6 strengthens they don't drill for gas off the coast of
7 Japan. They're not going to have increased demand for
8 large diameter line pipe in Japan. So they would
9 shift their exports from other lower priced markets in
10 the world -- the mid-East where they ship, Africa
11 where they ship, South America where they ship.

12 They will ship to the United States, and
13 they will ruin this market and the Mexicans will join
14 right in with them to ruin this market.

15 COMMISSIONER LANE: Mr. Hecht, did you want
16 to --

17 MR. HECHT: Just a brief add on. Yes.
18 Absolutely is the answer to your question in terms of
19 could supply cause injury even in the context of
20 strong demand. You've certainly seen that before in
21 the flat-rolled industry where 1998 through 2000 was a
22 period of record demand and also a period of serious
23 injury for the domestic industry.

24 COMMISSIONER LANE: Okay. Thank you.

25 Mr. Chairman, I'll wait until my next round.

1 CHAIRMAN KOPLAN: Sure. Thank you.

2 COMMISSIONER LANE: I'll turn my microphone
3 off.

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

6 COMMISSIONER PEARSON: I'll turn my
7 microphone on.

8 CHAIRMAN KOPLAN: I think I'm in trouble.

9 COMMISSIONER PEARSON: I was not here at the
10 time of the original investigation. I was blissfully
11 off doing other things and not paying a whole lot of
12 attention to the International Trade Commission. In
13 looking at this case I spent some time on the tables
14 that go back to 1997. This would be Tables 1-1 and 1-
15 2 of the confidential report.

16 My apologies to those of you who don't have
17 access to that, but I will characterize generally what
18 I'm most interested in at the moment. It has to do
19 with the relationship between subject imports and
20 nonsubject imports.

21 If we look at the small diameter pipe in
22 those early three years we see that imports of subject
23 pipe were larger than the nonsubject pipe over those
24 three years.

25 Then we get 2000, the orders go into affect

1 and we see a really dramatic change in the composition
2 of imports where the subject imports take quite a
3 large drop and the nonsubject imports take an even
4 more remarkable increase such that as we look out over
5 the next five years then, 2000 through 2004, we see
6 that the total level of imports is somewhat higher
7 than it had been earlier, but the increase has all
8 apparently been accomplished by the nonsubjects.

9 A similar pattern in the large diameter
10 pipe, not quite as pronounced as what we see in the
11 small pipe. In both large and small pipe there are
12 some fluctuations in production by the domestic
13 industry, but let me just characterize those
14 fluctuations as being relatively modest in comparison
15 to the adjustment that we're seeing between subject
16 and nonsubject imports.

17 So the question finally is this. If these
18 orders were to be revoked why wouldn't we assume that
19 any increase in subject imports would come at the
20 expense of nonsubject imports rather than at the
21 expense of the U.S. industry? That would seem to be
22 what one would infer from looking at what happened
23 when the orders went into affect.

24 Mr. Leland?

25 MR. LELAND: Martin Leland with U.S. Steel.

1 If I understand your question correctly if we would
2 sunset these reviews then our borders are open to
3 anybody that wants to come in here. We've already
4 stated that this market is the best market in the
5 world. The subject imports would come in in massive
6 quantities.

7 The nonsubject imports wouldn't stay out of
8 here because they still can do better here than they
9 can anywhere else. So the bottom line would be we
10 would be forced to do one of two things, either reduce
11 capacity, reduce people, shut back our facilities or
12 dramatically reduce our price to get on the same level
13 in order to maintain a market share.

14 Both of those would be unsatisfactory for us
15 I think. Maybe some other comments?

16 MR. CLARK: Ronny Clark with V&M. In
17 addition to what Martin said the nonsubject imports
18 will not be on the AMLs as well, so the Mexican and
19 Japanese material will come in and directly impact the
20 Koppel -- well, U.S. Steel and V&M material.

21 COMMISSIONER PEARSON: Mr. Vaughn?

22 MR. VAUGHN: Yes. If I could argue a little
23 bit about the history. I think what you saw during
24 the original investigation was a great deal of
25 underselling by the subject imports underselling the

1 domestic producers.

2 They left the markets. Now, what you're
3 hearing from the testimony today is that the
4 nonsubject markets are also underselling the domestic
5 producers. The question is if the orders are revoked
6 and the subject imports come into this market are they
7 more likely to undersell the nonsubject importers or
8 are they more likely to undersell the domestic
9 industry?

10 I think the record indicates that they're
11 much more likely to undersell the domestic industry.
12 I think the testimony you've been hearing today is
13 that it's actually quite difficult to undersell
14 nonsubject imports, and so the impact is likely to be
15 much more greater on the domestic industry than it was
16 on the nonsubject imports.

17 COMMISSIONER PEARSON: Isn't it correct that
18 in our data for this investigation we have included as
19 nonsubject imports some quantity of imports that
20 actually are subject to other orders that are not
21 currently under review, and don't we have to assume
22 that those imports are being fairly traded?

23 MR. VAUGHN: Right now the only other orders
24 that are -- first of all with respect to large
25 diameter there are no other orders. These are the

1 only orders on large diameter. With respect to small
2 diameter you're only talking about three countries:
3 Argentina, Brazil and Germany.

4 As you've been hearing in the testimony
5 today that's not the bulk of the nonsubject imports.
6 Those imports are coming in from more countries like
7 China, countries like Ukraine, countries like Russia.
8 We showed several slides today with large diameter
9 imports for example from the Czech Republic, and
10 Romania, and Argentina, and Italy.

11 None of those countries are under order at
12 this time.

13 MR. NARKIN: Commissioner Pearson?

14 COMMISSIONER PEARSON: Mr. Narkin?

15 MR. NARKIN: Yes. I'd just like to add to
16 that answer briefly. Actually, I'd like to go back to
17 the point you made originally in looking at the
18 confidential data where you see the change in subject
19 and nonsubject imports from 1999 to 2000.

20 I think also if you were to go back and look
21 at the change in the industry's operating income in
22 the same timeframe, 1999 to 2000, as subject imports
23 were receding from the market in terms of the volume
24 and they were replaced to a significant extent by the
25 nonsubject imports you will nevertheless -- to repeat

1 if you compare the industry's operating income in 2000
2 after the order started to have an affect to what it
3 was in 1999 there's a dramatic difference.

4 I would suggest to you that what that shows
5 is consistent with the testimony of a lot of witnesses
6 here today to the effect that there's a very
7 noticeable difference in the price aggressiveness of
8 the countries that are under order here as compared to
9 certain other players in the market.

10 COMMISSIONER PEARSON: Your argument applies
11 accurately enough to large diameter pipe, but it
12 really falls short when looking at the small diameter
13 pipe because there as you will observe the industry's
14 earnings ratio was absolutely the same in 2000 as it
15 had been in 1999, so we saw no influence at all in
16 earnings.

17 MR. NARKIN: Well, you have to keep in mind
18 that the order did not become effective until the
19 middle of 2000.

20 COMMISSIONER PEARSON: Yes, but then we look
21 at 2001, so that doesn't help your case a lot either.

22 MR. NARKIN: Well, because, as everybody
23 here has testified, there was a very sharp downward
24 shift in demand in 2001 and that was the reason for
25 that.

1 COMMISSIONER PEARSON: Okay, well, perhaps,
2 fair enough. Mr. Vaughn?

3 MR. VAUGHN: Commissioner Pearson, I wanted
4 to make sure that I just understood what you said.
5 Are you talking about the operating income numbers
6 shown on page I-7 for small-diameter pipe?

7 COMMISSIONER PEARSON: Yes.

8 MR. VAUGHN: And you are saying that you
9 think that the operating income number for 1999 is the
10 same as the operating income number for 2000?

11 COMMISSIONER PEARSON: The ratio, yes, the
12 bottom line.

13 MR. VAUGHN: I would respectfully disagree
14 with that. I think that if you -- and I mean that we
15 can explain this more in our post-hearing, but I think
16 that that statement is actually not correct. I will
17 be happy to address that more in our post-hearing
18 brief.

19 COMMISSIONER PEARSON: Well, you will have
20 to because my reading of the numbers is: If the ratio
21 remains the same, and the actually dollar level of
22 earnings went up in 2000 relative to 1999, so, if
23 there is an alternate case to be made, by all means
24 make it.

25 MR. VAUGHN: We will absolutely make that in

1 our post-hearing brief.

2 COMMISSIONER PEARSON: Okay.

3 MR. SCHAGRIN: Commissioner Pearson, just
4 one brief comment.

5 COMMISSIONER PEARSON: Yes.

6 MR. SCHAGRIN: And that is: As to large
7 diameter, if you accept the proposition that we are
8 putting forth with what I think is extremely well-
9 grounded facts, that we are aware that subject imports
10 would increase after the sunsaving order; and you are
11 trying to decide: Would they substitute for non-
12 subject or for domestic?

13 I would argue that, except during the Asian
14 financial crisis where the Japanese were in such
15 distress that they had to say: Gee, you can get
16 Japanese steel at Russian prices, I don't think that
17 the world situation is such that the Japanese are
18 going to come in and say: You can get Japanese
19 seamless pipe at Chinese prices.

20 So, they are not going to look to substitute
21 for non-subject; they are not going to look to get in
22 at the bottom of the market. What they want to do is
23 come in below the domestic and take the market share
24 for the product domestic is going into away from the
25 domestic. I think that it is the reasonable scenario.

1 As long as they can sell above prices to their other
2 export markets and below domestic prices, that is
3 their arbitrage opportunity.

4 COMMISSIONER PEARSON: Right, but certainly
5 --

6 MR. SCHAGRIN: And that volume is going to
7 come away from the domestic industry, not other non-
8 subject imports.

9 COMMISSIONER PEARSON: Well, certainly, that
10 same dynamic had to apply in 1999 and why for the
11 post-hearing perhaps because my light has changed.

12 But why this big change between subject
13 imports between 1999 and 2000? It is just not clear
14 to me on the record and it is not clear based on what
15 I think I have heard as answers to my questions.

16 Mr. Chairman, my time has expired.

17 CHAIRMAN KOPLAN: Thank you. Commissioner
18 Okun? I'm sorry, Commissioner Aranoff?

19 COMMISSIONER ARANOFF: Thank you, Mr.
20 Chairman.

21 CHAIRMAN KOPLAN: I'm turned around.

22 COMMISSIONER ARANOFF: The second time that
23 you have forgotten me in that long a period of time.
24 I don't know what that means.

25 CHAIRMAN KOPLAN: We will talk about that

1 later.

2 COMMISSIONER ARANOFF: I would like to
3 return to the question that Commissioner Hillman was
4 asking about AMLs and just follow-up on one thing.

5 I noticed from the distributors, who are
6 here today, who were testifying about the percentage
7 of your sales to customers that are affected by this
8 need for an approved manufacturer, that Red Man seemed
9 to be an outlier in the sense of having a very high
10 percentage of sales subject to these kinds of things,
11 and also the one that seemed to be the most heavily
12 into serving the oil and gas industry directly.

13 Is that a more general conclusion that I can
14 draw about the market that, when you are directly
15 serving people in the oil and industry, the AMLs are
16 more important? And does it follow from that that
17 those are the customers who are buying the highest
18 value, or highest priced products?

19 MR. BINDEK: I think I understand your
20 question. But we deal with a lot of the refineries
21 and they are highly volatile. You have to have the
22 right material put in there; and these companies, when
23 they evaluate a mail, they want to make sure that all
24 the bases are covered. I guess that is the easiest
25 way to say it.

1 So what we do when we buy our inventory is
2 we try to buy it according to what they, our customer
3 base, asks for. Now, granted, we do a tremendous
4 amount of business with these end users like the
5 chemical plants, refineries, et cetera. But we have
6 got another market also, which is tied to the oil
7 business, but there is a lot of construction and other
8 areas that we also sell to which they don't use. AMLs
9 is not any part of that. They don't even care as long
10 as it's round and has a hole in it.

11 But when it goes into a critical area, they
12 want the manufacturer that their technical people have
13 approved. So that is why we buy according to what our
14 customers want.

15 COMMISSIONER ARANOFF: Right, I appreciate
16 that answer; and I guess what I am just trying to
17 understand is: The customers who have these demanding
18 applications, and who are more picky about the
19 manufacturers that they will buy from, are these
20 customers buying the quad-stencilled sort of run-of-
21 the-mill product, or are they buying these higher-end
22 line-pipe grades?

23 MR. BINDER: No, they are buying material
24 as to quad-stencilled, but we --

25 COMMISSIONER ARANOFF: They are?

1 MR. BINDER: Yes.

2 COMMISSIONER ARANOFF: Okay. So they are
3 buying the same product that some other customers that
4 are not as picky about manufacturers are buying.

5 MR. BINDER: And I might explain something
6 that these AMLs also have. It is not only domestic
7 nails on there, they are foreign nails also.

8 So we are not limited to where we buy, but
9 we do because it is available and we can get it when
10 we want it and the accessibility of it.

11 COMMISSIONER ARANOFF: I appreciate that.

12 And, Mr. Leland, I saw you nod. Do you have
13 something that you wanted to add?

14 MR. LELAND: Not really.

15 COMMISSIONER ARANOFF: Okay.

16 MR. DURHAM: I wonder if I could comment
17 again, please? I would say that once you get away
18 from the majors and you go to the independents, and
19 the independents represent a huge, huge volume, maybe
20 as much if not more than the majors, the AMLs are not
21 very important at all.

22 COMMISSIONER ARANOFF: Okay. And would you
23 agree that, to the extent that AMLs matter to some
24 customers, it is not because they are buying some
25 high-end products, it is just that certain customers

1 that they have those requirements?

2 MR. DURHAM: Yes.

3 COMMISSIONER ARANOFF: Okay. Thanks, I
4 really appreciate that clarification.

5 Let me turn to a completely different issue,
6 which no one has raised yet today, I think which has
7 to do with accumulation. One of the interesting
8 things about this case, and I think the Commission has
9 perhaps in the past looked at this before, is that we
10 are looking at an increasingly globalized market where
11 we have these multinational players, both Mittal and
12 Tenaris, who represent a number of the subject
13 producers, also the V & M family with the domestic
14 presence.

15 How do the relationships for the existence
16 of these families, or companies, are they relevant as
17 a discretionary factor that we should consider in
18 looking at accumulation. And, if so, which way to
19 cut, Mr. Vaughn?

20 MR. VAUGHN: Yes, I mean, I think first of
21 all, one of the things that you look at in five-year
22 reviews of this is: Are these countries likely to
23 compete in the market under the same conditions of
24 competition? And that is a discretionary factor that
25 the Commission has used many times in its accumulation

1 analysis in five-year reviews.

2 Well, what could be more the same conditions
3 of competition when the pipe is being sold through the
4 same sales office, to be marketed in the same way it
5 is being sold, pitched to the same customers. That is
6 what the testimony here today is that there is a
7 single Tenoris brand, and that Mittal has a single
8 sales office.

9 So we think that the Commission accumulated
10 these countries five years ago; and we would argue
11 that today that decision is even stronger. Because
12 when you get to that, in their discretionary factor,
13 they are going to be competing under the exact same
14 conditions of competition because they are the exact
15 same companies.

16 MR. SCHAGRIN: Commissioner Aranoff, Roger
17 Schagrin. I would just point out that when it comes
18 to your statutory accumulation factors, which, of
19 course, you consider first in sunset reviews, as you
20 do in investigations, I think you find the same
21 criteria will be met again here as they were in the
22 original investigation in terms of fungibility of
23 products. They are all here quad-stencilled,
24 geographic overlaps, et cetera.

25 I think when you do get to your more

1 discretionary no discernible impact, which you can
2 apply in sunset reviews, I think the common ownership
3 by multi-national companies with the same U. S.
4 offices, and the same marketing is a discretionary
5 factor when you are looking at no discernible adverse
6 impact, that you could weigh very heavily to reach a
7 conclusion that you shouldn't say that there is no
8 discernible adverse impact.

9 And once accumulation is met because you
10 have got mills operated in a variety of countries by
11 the exact same owner and we are going to market these
12 products jointly. So I think it is a factor you
13 should take into account as you are making decisions
14 on no discernible adverse impact.

15 COMMISSIONER ARANOFF: Thank you both for
16 those answers, that is helpful.

17 Let me go back to some of the basic
18 questions to help me understand the product that I had
19 started off the last round of questions on. One of
20 the things that I am not sure that I have a complete
21 understanding of is: With respect to small diameter
22 versus large diameter, could somebody give me an
23 estimate of how much of U. S. production for each of
24 those tends to be used in the oil and gas industry
25 versus other uses; and is there a correlation between

1 the size of the pipe and the distance over which
2 material has to be transported?

3 MR. LELAND: This is Martin Leland with U.
4 S. Steel again. No, the two- to four-inch standard
5 and line pipe that we sell, this quad-stencilled, is
6 most of it. The preponderance of that pipe goes into
7 the Gulf of Mexico distributors.

8 I would say that most of that pipe is used
9 in the oil and gas industry. Do you agree with that?

10 MR. BINDER: I would say that it is hard to
11 say exactly where it goes in one application. But,
12 generally, your two-inch, well, let's say even on
13 there, where's your pipe? Half-inch through an inch-
14 and-a-half is used in some type of construction
15 applications where high pressure is involved, and I
16 wouldn't say that it is so much in the oil and gas
17 business. It is more in the type constructions of
18 refineries and chemical plants, et cetera.

19 Any time that you need high pressure in a
20 small diameter, you go to a pressure pipe, two-inch
21 and three-inch material. It is hard to say. We sell
22 a lot of it and it goes to fabrication. It goes to
23 the oil and gas industry. It goes to the construction
24 of chemical plants, or what they call a revamp, where
25 they go in and work over these refineries. They use a

1 lot of that material in there. To what extent, I
2 couldn't give you any numbers.

3 And then your four-inch and larger, it
4 probably goes, most of it, to the oil and gas
5 industry, or a lot of it. Most of these are the gas.

6 COMMISSIONER ARANOFF: To transmission?

7 MR. BINDER: Transmission.

8 COMMISSIONER ARANOFF: Yes.

9 MR. BINDER: And the size, I can't answer
10 that question. I am not an engineer, so I don't know.

11 COMMISSIONER ARANOFF: Okay.

12 MR. DURHAM: You also have paper mills. A
13 lot of this small pipe is used in paper mills. That
14 is not that related, I don't think, to oil and gas.
15 Of course, everything has some relation to it, and
16 what we see that really goes for the pipe-line
17 applications, which start at four-inch and really the
18 real popular sizes would be six, eight and ten.

19 But, there again, a lot of that is also used
20 in paper mills and fabrication and fabrication is not
21 all for oil and gas. It is for a lot of other
22 applications also.

23 COMMISSIONER ARANOFF: Okay. Thank you all
24 for those answers. And I see that my time is up.

25 CHAIRMAN KOPLAN: Thank you, Commissioner

1 Aranoff.

2 Mr. Leland and Mr. Clark, Mr. Schagrin
3 mentioned that a lot of the demand for large-diameter
4 pipe is for pipelines in the Gulf of Mexico I believe.
5 Have you seen an increase in demand due to hurricane
6 damage, and, if so, how long do you expect that to
7 continue?

8 MR. LELAND: At this point, we haven't seen
9 any significant difference in the Gulf of Mexico. I
10 think the best thing that we could forecast, and
11 expect right now, would be to get back to kind of
12 where we were before all this hit.

13 CHAIRMAN KOPLAN: Okay. Yes?

14 MR. BINDER: I would like to answer. We --

15 CHAIRMAN KOPLAN: Could you just identify
16 yourself again?

17 MR. BINDER: Larry Binder, Red Man.

18 CHAIRMAN KOPLAN: Yes?

19 MR. BINDER: We have done a lot of business
20 in the Gulf Coast with the oil and gas industry.
21 Since these hurricanes have come through and done the
22 destruction that they have done in the Gulf, our
23 inventory has dropped almost to nothing in the Gulf
24 Coast area, due to the fact that we are not seeing a
25 request for material at this time.

1 What we are seeing from our outside sales
2 people, they are talking that it is going to be into
3 the third quarter before we start seeing --

4 CHAIRMAN KOPLAN: The third quarter of?

5 MR. BINDER: Of this year --

6 CHAIRMAN KOPLAN: Okay.

7 MR. BINDER: -- before we see any type of
8 big inquiries come in, or anything like that. We do a
9 lot of business with just the small hook-ups, or
10 something like that, but nothing big like we have had
11 in the past.

12 CHAIRMAN KOPLAN: Thank you. I appreciate
13 that. Let me stay with small diameter, if I could,
14 with the domestic producers.

15 One of the factors that the Commission takes
16 into account in the review cases, is the possibility
17 that productive capacity may be shifted to the subject
18 product if the orders are revoked.

19 Skadden's pre-hearing brief notes, at page
20 39, that "producers of small-diameter SLPs make other
21 tubular products such as OTCG on the same facilities
22 used to make the subject product." That is a quote.

23 The middle of page 9 concedes that point,
24 but argues that: oil-country tubular goods tend to be
25 even more profitable than the subject merchandise;

1 and, thus, there would be no economic incentive to
2 shift production to small-diameter CASSLP pipe.

3 Please respond, Mr. Vaughn?

4 MR. VAUGHN: I am sure that some of the
5 industry guys can talk about why sometimes you would
6 want to make small-diameter pipe as opposed to OCTG.
7 We have had a little testimony on that.

8 I would like to just address one legal
9 point, which is that: Japan, for example, is under
10 order with respect to OCTG in this country. So they
11 can't really ship OCTG to the United States right now.

12 So, if you were to revoke the order on
13 small-diameter SLP, that would be a way that Japanese
14 producers could get access to this market. They might
15 not be able to ship tubing here, but, instead, they
16 could ship the small-diameter SLP.

17 In previous cases, for example, in your 2001
18 five-year reviews, you had Siderca, who was under
19 order with respect to SLP and under order with respect
20 to OCTG, you said that if the OCTG order remained in
21 effect, that that would give them an incentive to
22 shift over to SLP. So I would just make that legal
23 point.

24 CHAIRMAN KOPLAN: I appreciate that. Thank
25 you. Did any of the domestics want to add to that?

1 Mr. Schagrín, did you?

2 MR. SCHAGRIN: Just as to large diameter, I
3 want to point out that both Japan and Mexico are
4 subject to orders on OCTG, which would restrict their
5 ability to ship oil country to the U. S. and would
6 really open things up if the large-diameter orders
7 were revoked.

8 CHAIRMAN KOPLAN: Okay.

9 MR. CLARK: Mr. Chairman, Ronnie Clark
10 again. I know your question was about small diameter.
11 But, just for the record: There are standard line-pipe
12 products that we currently produce that have higher
13 margins than oil country in our mix.

14 So, they are as attractive, if not more, to
15 our profitability picture than some OCTG sizes.

16 CHAIRMAN KOPLAN: Thank you.

17 Your microphone.

18 MR. LELAND: Martin Leland, I will.

19 CHAIRMAN KOPLAN: Go ahead.

20 MR. LELAND: Again, U. S. Steel. We like to
21 make standard-line pipe; we like to make oil country.
22 I would expect any of the people under this order
23 would feel the same way, so they would certainly just
24 assume that they will bring in one or the other,
25 whichever one they can get in here.

1 So it shouldn't make any difference to them
2 either. We like both products and I would assume that
3 our competition does too.

4 CHAIRMAN KOPLAN: Thank you.

5 Mittal asserts, at page 13, that: "Moreover,
6 the Japanese product mix is heavily tilted to a high-
7 value specialty steel seamless tubular products. In
8 2005, specialty steel products accounted for 63.9
9 percent of total production, up from 59.1 percent of
10 production in 2002. It would be irrational for the
11 Japanese producers to shift production from high-value
12 specialty products to the subject products."

13 They suggest, at page 14, that "between 2004
14 and 2005, the Japanese producers were allocating
15 limited production resources in favor of even higher-
16 valued products, and did not have available the
17 resources to increase the production and exportation
18 of ordinary steel seamless products such as small-
19 diameter CASSLP pipe."

20 Can you provide me with information to the
21 contrary? And, if so, what can you tell me now, Mr.
22 Hecht?

23 MR. HECHT: We can certainly endeavor to do
24 so. That was a lot of speculation about an industry
25 that did not provide the Commission with data that

1 would have allowed you to have better insight into
2 that question.

3 We did our best, in the brief, to try to
4 analyze the data that was recorded to show what they
5 had in terms of capacity, and we will certainly
6 endeavor to see what is out there publicly otherwise
7 to try to get at this sort of enormous gap in the
8 record here.

9 CHAIRMAN KOPLAN: You appreciate why I am
10 asking the question.

11 Yes, Mr. Vaughn?

12 MR. VAUGHN: Yes. You know, another point
13 that I would make there, Chairman Koplan, is: If you
14 look at what they are trying to say here, they are
15 trying to say: Well, Japan is not making as much of
16 this; they are not exporting as much of this as they
17 did before.

18 The figures that they are talking about in
19 both years, 2004 and 2005, are over 800,000 tons, and
20 those are the figures that they have in their brief.
21 So, when you hear that they are shifting, or when you
22 hear that the percentage is changing, even so, their
23 own numbers, the numbers they presented show that the
24 Japanese producers are making enormous amounts of this
25 product.

1 So, whatever shifting may be going on in
2 their marketplace, they still have more than enough
3 production, and more than enough exports, to swamp
4 this market.

5 CHAIRMAN KOPLAN: Thank you.

6 MR. LELAND: I might add a little something
7 to that just from the marketing perspective. If I
8 were sitting in their chair, as an example, if I could
9 market a higher-ended product internationally since I
10 can't come into this lucrative market, and I was going
11 to have be in the international market, I would tend
12 to go for the higher-size simply because I would not
13 necessarily want to get down to price levels where the
14 Chinese are today.

15 If you allowed them to come in this country,
16 all of a sudden that situation could change and they
17 could move product back into the carbon-standard and
18 line-pipe businesses that come in here.

19 CHAIRMAN KOPLAN: All right, thank you.

20 MR. SCHAGRIN: Chairman Koplan, I would just
21 say: Obviously, everyone at the Commission, and all
22 the parties, would have preferred to have the
23 information from the Japanese industry on the record
24 in terms of questionnaire responses versus having to
25 utilize studies, et cetera, about what their product

1 mixes are.

2 But I would echo what Mr. Vaughn said: Even
3 accepting the Mittal statement that only 40 percent of
4 Japanese production could focus on commodity-grade
5 products be they either in the small-diameter or
6 possibly in the large-diameter. It is still -- Japan
7 has the second largest industry in the world after
8 China. Percentages like 40 percent of that gigantic
9 Japanese industry is a huge amount of volume compared
10 to the size of the U. S. market.

11 CHAIRMAN KOPLAN: Thank you.

12 Counsel, the brief filed on behalf of U. S.
13 Steel and Koppel Steel, asserts at page 2: "The anti-
14 dumping orders led directly, and in short order, to a
15 dramatic turn for the better in the industry's
16 fortunes. Imports from the Czech Republic, Japan and
17 South Africa, essentially, disappeared from the U. S.
18 market."

19 similarly, you refer to imports from Rumania
20 but bracket your characterization. In further
21 support, you refer to your operating margins between
22 1999 and 2000. I must say that wending my way through
23 the brackets in your brief is presenting a real
24 challenge for me, which is why I ask you to help me
25 out on the post-hearing on that issue.

1 But you do state publicly, at page 2, that:
2 "The orders also enable the domestic industry to
3 weather the decline in demand that subsequently
4 occurred and you do note that demand picked up in
5 2004."

6 The Mittal, at pages 24 and 25 of their pre-
7 hearing brief, tells quite a different story, as I am
8 sure you know. Much of their argument is bracketed.
9 But, in part, they attribute domestic improvement to
10 strong, energy-related demand. They conclude that:
11 "In some, none of the data comparing events during the
12 original POI and subsequent to the orders, indicate
13 that the orders provided any significant benefit to
14 the domestic industry."

15 I see that my red light is on. I would ask
16 you to address their arguments in detail for me in
17 your post-hearing briefs. Mr. Hecht?

18 MR. HECHT: We will do so.

19 CHAIRMAN KOPLAN: Thank you. With that, I
20 will turn to Vice Chairman Okun.

21 VICE CHAIRMAN OKUN: Thank you. Looking back
22 at the original investigation, and I am looking at the
23 information we have during the period of review and
24 then trying to look into the reasonable foreseeable
25 futures, as we were asked to do in these sunset

1 reviews, I wanted to turn to counsel just for a moment
2 to try to understand part of the theory of your case.

3 I am going to start with you, Mr. Schagrin,
4 because you had talked about that, and I think
5 referenced that had -- we could at this and the reason
6 that we perceive a future because we saw similar
7 conditions during the original period.

8 When I go back and look at the opinion and,
9 of course, only three are honest. We don't hold up
10 our other colleagues who didn't write it. But, in the
11 opinion, we talk about declines in the industry
12 performance and this is in both large-diameter and
13 small-diameter. We had the same exact language.

14 And we note that they are partially
15 attributable to the decline in demand. But we find
16 that they are also attributable, in significant part,
17 to price competition; and particularly in 1999, as the
18 domestic injury was forced to lower its prices
19 significantly in order to recapture the lost-market
20 share originally taken by the lower-priced subject
21 imports; that subject imports significantly
22 exacerbated the effects of decline and demand on the
23 increasingly unprofitable and poorly performing
24 industry.

25 When I read the language and look through

1 the rest of the data there, and again I don't remember
2 how the case was argued, but it strikes me, though,
3 that that is not the condition of the industry
4 currently that I am looking at. So I wanted to make
5 sure whether you view it differently I guess?

6 First, you, Mr. Schagrín?

7 MR. SCHAGRIN: Yes, I also look back and
8 while I look at that time period, 1997 and 1999, I
9 know that data and it is available on consumption show
10 declines in 1999. But, as I remember that time period
11 in the wake of the Asian financial crisis and the big
12 increase in imports here, a lot of what was really
13 going on in 1999, in terms of saying demand was
14 declining, is that these distributors, the major
15 distributors sitting back here, as they saw prices
16 going down, they were trying to trim inventory as fast
17 as possible.

18 Nineteen ninety-nine was not a really bad
19 year compared to 1997 and 1998, in terms of underlying
20 demand in the economy for the subject products. A lot
21 of that was reinforcement of the declining prices
22 caused by the import surge causing distributors to
23 decrease their inventory, which then shows up in data
24 as declining apparent consumption.

25 And I think even whether underlying demands

1 stay strong or not for the end uses for both small or
2 large diameter line pipe, I think if you get, and
3 these distributors can comment on this, if you reopen
4 this market to large quantities of dumped products and
5 the distributors see that all the price signals are
6 for prices to be declining, regardless of underlying
7 demand, all of distribution in large diameter may be
8 85, 95 percent of the product goes through
9 distribution, they are all going to look to
10 significantly cut their inventories.

11 So, regardless of where real demand is, we
12 would have, because of increased import supply at
13 lower prices, the inventory reductions would cause the
14 market to look like demand was declining, so that is
15 the point that I would make.

16 VICE CHAIRMAN OKUN: Okay. How about you,
17 Mr. Hecht, because you, also, in your testimony today
18 and in your brief, make comparisons to hot-rolled as
19 being what we should look to as to where demand is
20 increasing and industry can still be injured.

21 But my question is: Is what we saw in the
22 original in this case, did we have that situation, or
23 do we have that situation in the reasonably
24 foreseeable future?

25 MR. HECHT: If your question is: Is the

1 market today stronger than the market was in 1999, I
2 guess I would say: Yes, I think it is stronger.

3 But, again, from our standpoint, it is clear
4 that an industry can be injured, even in the context
5 of strong demand. You have seen that time and time
6 again. Secondly, in a cyclical industry, harm on the
7 high side, or in times of good demand, is just as
8 damaging as harm at a lower point in the cycle.

9 Thirdly, I would agree that in terms of
10 basing your decision, in terms of forecasting demand
11 in this area, it is notoriously difficult to do. We
12 will provide some additional briefing showing that
13 there really is a variety of opinion out there in
14 terms of where things are going. We certainly hope
15 the market stays strong.

16 But with the level of supply available and
17 the direct head-to-head competition you would have,
18 there is no question that this would have a major
19 impact if the orders were lifted. There is just that
20 much supply out there regardless of the demand.

21 VICE CHAIRMAN OKUN: Mr. Vaughn?

22 MR. VAUGHN: I agree with what Mr. Hecht
23 said. I just want to just supplement. I see a lot of
24 similarities here in the type of argument that is
25 being make, mainly by the other side. In the original

1 investigation, they were saying: Oh, the problem isn't
2 the imports. The problem is lack of demand.

3 And the Commission, in my opinion, correctly
4 rejected that and said: No, you are exacerbating the
5 problems caused by demand.

6 Now, they are saying --

7 VICE CHAIRMAN OKUN: Right. It is on that
8 point that I am trying to understand your argument.

9 MR. VAUGHN: Yes.

10 VICE CHAIRMAN OKUN: Because, again, to me,
11 that is different than an opinion where we would have
12 said: We have increasing demand. Subject imports are
13 -- you are hurting an industry even then. Instead, we
14 said: We recognize demand what was an important
15 factor.

16 MR. VAUGHN: Correct.

17 VICE CHAIRMAN OKUN: And it was exacerbated.
18 That is why I am focused on this distinction.

19 MR. VAUGHN: Absolutely, in both
20 investigations, in the original investigations and in
21 these reviews, they are trying to get you not to look
22 at what they are going to do, but to look at demand.
23 In the one case, demand was the whole cause of the
24 problem. In these cases, demand is going to insulate
25 everybody from every problem.

1 What the Commission did before was to see
2 that even -- you know that the imports were having a
3 negative effect in a period of downward demand. What
4 we are arguing here is: Is that even if demand stays
5 at current levels, imports will still have a negative
6 effect.

7 VICE CHAIRMAN OKUN: Okay. I just wanted to
8 make sure. I appreciate that and that helps me. But
9 would I raise again the point -- well, I do want to
10 see your additional briefing on demand forecasts. I
11 saw the forecasts that we have collected in the Staff
12 Report. I would appreciate anything further out
13 there.

14 Again, the reason I asked about the energy
15 information administration is while I would agree, Mr.
16 Schagrin, that if you look at natural gas well-head
17 prices over a very long period of time, and, you know,
18 you have volatility in a higher market, and I think we
19 talked about this in many of these pipe cases, for the
20 end users that you are all talking about, who are in
21 these gas projects, they usually have a dollar figure
22 in mind. You know gas has to be above a \$4 well head
23 for us to invest in this pipeline or that pipeline.

24 So, even if the projections are above six, I
25 want your analysis of what happens to those pipelines

1 where a significant portion of this product goes in
2 and the specific energy information the administration
3 had, the product that I was looking at was from June
4 2005, which talks about 2005 through 2007, the number
5 of pipeline products that have been approved, the
6 number that are pending, and the forecast.

7 So, just to the extent that you have other
8 information, I would appreciate seeing that. And just
9 addressing, though, the general point made by
10 respondents, which is: Again, if we are looking at
11 changes from the original period to this, I would
12 agree with you on the volatility of oil and gas. But
13 my question is: Whether this isn't a volatile market
14 on the upper end?

15 That is what is more likely to happen on the
16 oil side is -- Nigeria and you name the country. If
17 something goes wrong and these prices go up, they
18 don't go down. They may eventually go down because
19 they always do. I heard somebody talk about the
20 1980s.

21 But, for the reasonably foreseeable future,
22 given the structural changes in the oil, supply and
23 demand market, I would appreciate you talking about
24 what relevance that has for this market?

25 MR. HECHT: I want to supplement one point

1 to make sure I was addressing your question in terms
2 of what I said earlier, too. Now if you are looking
3 at the 2001 reviews, I think that there was more of a
4 situation where you had these projections of
5 dramatically increasing demand similar to what you
6 just showed. That, I would say, is more of an
7 analogous situation here. Again, as the Commission
8 saw the very year, those forecasts were shown to be
9 widely inaccurate.

10 VICE CHAIRMAN OKUN: Although, again, I mean
11 not this industry. But if you are betting on oil, you
12 would have done okay with those forecasts. Because
13 the blip was down very brief -- you know, it blipped
14 down and went way back up.

15 So, again, that isn't what drives the long-
16 term projects. I am not trying to imply that.

17 MR. SCHAGRIN: We will address that in the
18 post-hearing brief.

19 VICE CHAIRMAN OKUN: Okay.

20 MR. SCHAGRIN: Meanwhile, I want to see if
21 the EIA has done anything since this just almost
22 collapse in gas prices between January and March, and
23 I am not aware of them having done anything. But I
24 would say anything that was done, before maybe the
25 beginning of this year, would just look totally

1 different.

2 I don't think anybody came anywhere close to
3 forecasting that prices could go from \$15 back to
4 below \$7 now. They all thought that it might fall a
5 little bit and then in the future, it is going to go
6 way back up again.

7 VICE CHAIRMAN OKUN: Right. I will take a
8 look, though, Mr. Schagrin. The point is just that:
9 To the extent that a lot of these L & G, and, again, I
10 think that the analysts all say this: That the
11 investment is at six or above. It is not at fifteen.

12 MR. SCHAGRIN: Correct. No, I know.

13 VICE CHAIRMAN OKUN: Fifteen brings on the
14 really, really awful projects that are sitting out
15 there --

16 MR. SCHAGRIN: Correct.

17 VICE CHAIRMAN OKUN: -- that six brings on.
18 So that is --

19 MR. SCHAGRIN: That is what we will look at.

20 VICE CHAIRMAN OKUN: Yes.

21 MR. SCHAGRIN: We are just dangerously close
22 to six, and I agree with you: Six is probably the
23 number and you say: Gee, we need ten or twelve.

24 VICE CHAIRMAN OKUN: Well, no, I think it's
25 four, but anyway --

1 MR. SCHAGRIN: No, I don't think it's four.
2 We'll see.

3 VICE CHAIRMAN OKUN: We'll see.

4 MR. SCHAGRIN: In the post-hearing brief.

5 VICE CHAIRMAN OKUN: Okay. Thank you.

6 Thank you, Mr. Chairman.

7 CHAIRMAN KOPLAN: Thank you.

8 Commissioner Hillman?

9 COMMISSIONER HILLMAN: Thank you. I hope
10 just a couple of quick questions. But in light of
11 this discussion that you just had with Vice Chairman
12 Okun, if there is something about this industry and
13 this issue of the long-term projects, and the role
14 that they play in terms of demand for this product
15 that would suggest to you that we should look at
16 something different in terms of thinking about what is
17 a reasonably foreseeable time frame that all of our
18 analysis is supposed to be directed to, I would ask
19 you to brief this issue: For this industry, what is
20 reasonably foreseeable in light of both the issue of
21 the long-term projects on the pipeline side and on the
22 other hand, the volatile nature of oil and gas prices?

23 All right, thank you.

24 Secondly, if I can try to make sure that I
25 understand very specifically the argument that is

1 being made with respect to potential price effects in
2 this market? Because I have to say: if I look at the
3 data, and we are seeing this big increase in prices
4 and nonetheless, I am supposed to be making a
5 determination about whether I think, in the reasonably
6 foreseeable future, in the absence of the orders,
7 there would be price suppression or price depression
8 occurring as a result of imports coming into the
9 market.

10 I have heard Mr. Durham and everybody else
11 talk about what would happen just in terms of supply.
12 But if I look at the data that we have got on the
13 record, we have seen prices, again, going very high
14 over the recent period. We have also seen a very
15 significant volume of non-subject imports coming in at
16 very low prices, or at least very low average-unit
17 values.

18 So, you have very low average-unit value
19 non-subject imports that are not currently causing
20 price suppression or depression. So why would I
21 think, in the reasonably foreseeable future, that
22 subject imports would, all of a sudden, turn around
23 and start causing price suppression or price
24 depression if low-priced, non-subject imports are not
25 doing it today?

1 MR. LELAND: Well, I guess what I would say
2 is: If you are thinking that it is not happening
3 today, but I can assure you that this thing is getting
4 worse and worse by the day and we do recognize it.
5 Now, we haven't had to go in and specifically do any
6 damage control at this point. But if the imports
7 continue to come in at the present levels of the other
8 gas, we will have to address that.

9 What our hope is: We will maintain what we
10 are doing and instead of them continuing to come in
11 lower, perhaps they will bring their prices up. I
12 mean our intention would be for them to do that. Our
13 expectation would be if we sunset these reviews,
14 those parties are going to come in underneath us and
15 above them. I mean that's a given.

16 But what is going to happen here is that we
17 would have to eventually start a downward price
18 ourselves in order to meet those people. Now, once we
19 go down to meet, pick one, and they have got to go
20 lower to stay below us, we would be going to meet
21 them, pick one, pretty soon we could force ourselves
22 back down to where the non-approved is today if we are
23 not careful.

24 And that is where we were in 1993, that
25 scenario played out in 1993. We started down after

1 these people and we wound having to meet the Czech
2 Republic and these other people of the world at some
3 \$500 and something dollar a ton number. So we could
4 be headed down that slippery slope again if we allow
5 these to be sunset and you bring them in. That is the
6 direction that we are probably going to be headed
7 here.

8 COMMISSIONER HILLMAN: Okay. Again, I hear
9 that answer. I would ask you, again, and this is
10 difficult in the absence of the confidential
11 information. But, again, when I am looking for price
12 depression or suppression.

13 Now, I am at this point, not seeing prices
14 being depressed, meaning they are clearly not going
15 down. And, on the suppression side, again, I
16 typically look to see whether there is some evidence
17 of a cost-price squeeze occurring.

18 Yes, costs have gone up, but your prices
19 have gone up four times what costs have gone up. So,
20 it is hard to see a cost-price squeeze again in this
21 period. So I am just asking to think about what I
22 should decide in terms of the immediate future purely
23 on this issue of price suppression or depression.

24 Mr. Vaughn?

25 MR. VAUGHN: Yes, since I have access to the

1 confidential data, I have the sense of what you are
2 talking about.

3 Let me this say that part of what I think we
4 are talking about here is a situation -- you are
5 supposed to be looking to conduct a prospective
6 analysis for change.

7 I think what the testimony here is saying is
8 that you are talking about a major change in the
9 market happening very quickly, not just that you are
10 going to have import numbers, but that the import
11 penetration numbers that you are seeing are going to
12 change dramatically.

13 So, you are talking about the import. You
14 know if you look at the amount of volumes that these
15 guys ship, say in a year like 1998, and when you start
16 talking about a volume of that magnitude coming into
17 this market, and you look at what that would do to
18 your import penetration numbers, that is a very
19 different market from the market that you are talking
20 about now.

21 So, while I think the testimony here has
22 been pretty consistent, that, up to this point, it
23 hasn't yet tipped over. But if you start pouring a
24 very large supply from any source into this market
25 very quickly, that is when it could change.

1 COMMISSIONER HILLMAN: I appreciate that
2 response, and it does go to the one last question that
3 I would ask.

4 You addressed, again, to the extent that you
5 can here but, more specifically, in the post-hearing
6 brief and that is this issue of product shifting.
7 Because, in response to Commissioner Koplan's
8 questions and in general in your brief, you are
9 arguing that there is this significant potential for
10 product shifting. And, obviously, in all of our
11 previous tubular cases, whether they are seamless or
12 welded, whether they are OCTG, et cetera, the
13 Commission has to some degree addressed this issue of
14 product shifting.

15 And we now have an opinion from the CIT in
16 the Siderca opinion on this product that puts down
17 some fairly significant markers in terms of what the
18 Commission must show in order to satisfy at least
19 Judge Pogue on this issue. You know, it is not enough
20 to just say: Yes, you potentially, possibly, you
21 physically are able to shift between the production of
22 OCTG versus line, versus standard, versus pressure, et
23 cetera. But where is, very specifically, the
24 potential of a rational economic option to do that?

25 So, if there is anything further that you

1 think we should have on the record, that you can tell
2 us about the foreign producers in the subject
3 countries and their -- again, whether this an
4 economically rational decision, as well as a
5 practically possible decision, to shift between any of
6 the various products that they would be making in the
7 mill on the same facilities, why would they shift it
8 into this product?

9 Again, I am sure you are very familiar with
10 the Court opinion. So, if there is anything that you
11 would want to put on the record to insure that, to the
12 extent that we are making a product-shifting argument,
13 that we have what we would need to satisfy the CIT's
14 opinion in Soderka.

15 MR. HECHT: Just to say one thing on that
16 quickly, and as you can imagine, we are severely
17 hampered with the non-responding parties, because that
18 information would be very relevant to that analysis.
19 But we will try to do that with the data we have for
20 the responding parties.

21 COMMISSIONER HILLMAN: I appreciate that;
22 Mr. Schagrín?

23 MR. SCHAGRIN: Commissioner, I'd make two
24 points. First, in Judge Pogue decision, in that case,
25 you had adequate questionnaire responses, so Judge

1 Pogue was talking about your interpretation of the
2 information and questionnaire responses.

3 This case is totally different, because here
4 we don't have questionnaire responses; and I would
5 posit that would make it, on appeal, a very different
6 kind of record before Judge Pogue, where the
7 Respondents didn't even provide data about their
8 product shifting, and you have to make reasonable
9 assumption.

10 Secondly, with your earlier question, you
11 know, if this were an investigation, we wouldn't be
12 here. We wouldn't be here in terms of arguing injury
13 or even threat of injury. I clearly recognize that.

14 When you're looking at a reasonably
15 foreseeable timeframe, in this case, where you've got
16 to decide -- and I'll just use large diameter -- if
17 the record demonstrates that you would have a return
18 of large volumes of subject imports at the rates they
19 were at before 70,000 or 80,000 tons annually, and
20 with the already well-supplied market place, which
21 everyone, the distributors and domestic producers have
22 talked about -- notice, you haven't had any discussion
23 about allocations or any shortages in the market --
24 there's been none of this in this marketplace. So
25 this is all additional supply.

1 If you believe this record demonstrates that
2 that additional volume is going to come in, I think
3 with the information from the prior investigation in
4 this record, it's inescapable that within a reasonable
5 foreseeable timeframe, you would have serious price
6 depression, given that this is a commodity product,
7 that the new subject imports are all on the approved
8 manufacturer's list. So there's direct competition.
9 It's inescapable that within a reasonably foreseeable
10 time, you have significant price depression.

11 That's why we're here. We're not here
12 arguing that the present condition for the industry is
13 better, even to be quite honest and brutally honest --
14 which I can be sometimes before this Commission -- but
15 that they're particularly very vulnerable right now.

16 But this record is such that the subject
17 imports are going to come back in such significant
18 quantities and under-selling the market, that we will
19 have significant price depression in a reasonably
20 foreseeable time. I think that's what this record
21 that we have demonstrates; and to me, that's the
22 domestic industry's argument here, and one I believe
23 is very well founded.

24 COMMISSIONER HILLMAN: All right, I
25 appreciate those responses, thank you.

1 CHAIRMAN KOPLAN: Commissioner Lane?

2 COMMISSIONER LANE: This is a question
3 probably for Mr. Schagrín, Mr. Hecht, or perhaps Mr.
4 Vaughn. You all have urged us to take adverse
5 inferences in this case. As I recall, maybe
6 incorrectly, we have been reluctant to do that in the
7 past, and maybe we've never done it. I can't really
8 remember.

9 What about this case is different, that you
10 would urge us to do something that we have been
11 reluctant to do in the past?

12 MR. HECHT: Well, I guess there's a couple
13 of things. First, certainly, you do have authority to
14 use adverse inferences. You have used them in cases
15 in the past. But I would agree with the
16 characterization that it has been something you've
17 been reluctant to do.

18 In our view, that is a policy that we think
19 should be changed, particularly in a case like this,
20 where you're not, again, talking about a party trying
21 to cooperate, maybe failing to apply a few things on
22 there, maybe where you're dealing with third party
23 importers or a widely fragmented industry.

24 You're dealing with one of the biggest
25 industries in the world, proven to have caused

1 material injury previously. They are a well financed,
2 sophisticated industry, in a position to provide this
3 data with no difficulty at all, that just decided not
4 to do it.

5 From our standpoint, we can't be in a
6 situation where the foreign Respondents can take a
7 look at the public data, take a look at their own
8 data, and decide which one is better, and make a
9 decision based on that, in terms of whether they're
10 going to provide information to the Commission.

11 In effect, if that's the rule, you're almost
12 applying an adverse inference against the domestic
13 parties. Because any rational Respondent is going to
14 always chose to cooperate or not cooperate, based on
15 which data is more favorable to it.

16 So we think that's what the law was meant to
17 address. We think this is an absolute "poster child"
18 case for it, given the circumstances I've described,
19 and it's something that we really hope -- and I'm sure
20 you guys are taking a look at it, because it's a
21 pretty gaping hole in the record here and in some
22 recent cases, as well. I don't know if that fully
23 answers your question.

24 COMMISSIONER LANE: Thank you.

25 MR. SCHAGRIN: Commissioner Lane, first, I

1 completely agree with the comments of Mr. Hecht. I
2 would say you have taken some adverse inferences in
3 the past. It's a question of degree. I mean, in hot
4 rolled from Brazil, Japan, and Russia, in particular,
5 the Commission did fill in gaps from the lack of
6 participation of the Japanese and Brazilians in that
7 case, by making certain assumptions.

8 You didn't characterize them as being very
9 adverse in the way you used other publicly available
10 information. But without characterizing it as
11 adverse, I think there was some adversity there and,
12 obviously, we were pleased with the results.

13 I think here, there's almost a second layer,
14 for me personally, in this particular case. Not only
15 do we have some parties not filing responses. We even
16 have in large diameter line pipe parties who became
17 parties, through various distinguished counsel, and
18 filed for administrative protective orders. I believe
19 when you enter an appearance here, you say, we
20 represent foreign producers, and we intend to
21 participate through briefings and hearings in these
22 proceedings.

23 In this case, the Tenaris companies, or the
24 counsel representing the Tenaris companies, TAMSA and
25 NKK, who said that they would participate in these

1 proceedings, have decided not to file briefs or
2 participate in this hearing. So they're not available
3 to even answer questions of this Commission.
4 Obviously, that's a litigation strategy. The nice
5 thing about this great country we live in is that not
6 only do we have free speech, we do not command speech,
7 either.

8 But I find it very, very troubling. I mean,
9 I would have been much more pleased, and I think the
10 Commission would have been more pleased, even if they
11 were not to bring in executives, to have counsel
12 participate. I think the Commission should be
13 troubled by both non-filing of questionnaire
14 responses, but also by counsel deciding, for
15 litigation strategy reasons, that they don't want to
16 even come and participate in Commission proceedings as
17 a practitioner. It's very deeply disturbing to me.

18 COMMISSIONER LANE: Mr. Vaughn?

19 MR. VAUGHN: I'd just like to give one
20 practical example of how this is affecting these
21 investigations. We had a question, earlier today,
22 about relative prices here versus other markets.
23 We're going to do the best we can in the post-hearing
24 to address that question.

25 But your staff, properly in the

1 questionnaire for foreign producers, asked about AUV
2 data. You know, they asked about value data in other
3 markets. If you had a complete record, you could look
4 and see what sort of prices these guys are getting in
5 other markets now, and compare that to what is going
6 on in the U.S. But they chose not to respond.

7 So instead of that now, you know, we're
8 going to do what we can to cooperate. I'm sure the
9 staff is doing what they can to cooperate. But it
10 creates a major hole in the record, and that's just
11 true on a number of issues. That's just one example
12 that comes to mind.

13 COMMISSIONER LANE: Dr. Kaplan?

14 MR. KAPLAN: I mean, from an economic
15 analysis point of view, and from your analysis of not
16 the legal but the economic factors surrounding the
17 case, in a sunset review, there's really two sides to
18 it. It is, what shape is the industry in to be
19 injured; is there a vulnerability for a variety for a
20 variety of reasons? The other side is, how are these
21 guys abroad going to behave in the future? We know
22 how they behaved in the past. The answer is, poorly,
23 or there wouldn't be an order on them.

24 Now you have a situation where it's a purely
25 forward-looking exercise on how they behave. We know

1 they behaved poorly in the past, and they refuse to
2 either give information or say how they'll behave in
3 the future.

4 You know, as I said, as a non-lawyer, this
5 whole thing is quite perplexing to me. Well, they did
6 that before. They aren't showing up now. We have
7 some information we're providing you about how we
8 think they're going to behave.

9 It, in some ways, seems almost a foregone
10 conclusion that they would be here if they had
11 something better to say about themselves than I have
12 to say about them, and they don't. The best they
13 could rely on is, you know, a very intensive
14 professional search of what is going on in their
15 country, by another country that might be cumulated
16 with them, to try to cover them in terms of what
17 they're going to say.

18 As I say, that's the reason I'm an
19 economist, not a lawyer. But I'm kind of incredulous.
20 I think if you don't show up, and you did stuff bad
21 before, and we provide information that they will do
22 stuff bad again, and they have the economic motivation
23 to, how do you reach a conclusion?

24 COMMISSIONER LANE: I think I got the answer
25 to my question.

1 MR. KAPLAN: That's from an economic point
2 of view, though, and not a legal one.

3 COMMISSIONER LANE: Thank you; Mr. Chairman,
4 I don't have any more questions.

5 CHAIRMAN KOPLAN: Okay, thank you,
6 Commissioner; Commissioner Pearson?

7 COMMISSIONER PEARSON: Thank you, Mr.
8 Chairman, and to Dr. Kaplan's point, I'm an economist,
9 rather than an attorney, in order to provide some
10 comic relief to the Commission.

11 To Mr. Vaughn, earlier, we spoke about
12 earnings numbers in the timeframe of 1999 and 2000,
13 and at that time, you had a different understanding
14 than I did of what those numbers were saying.

15 In the 1999/2000 timeframe, I did not wear
16 reading glasses. Now I sometimes do and sometimes
17 don't. It's kind of an internal battle. After some
18 help from my staff and from the Chairman, I realized
19 that my interpretation of the markings around some of
20 the earnings numbers was incorrect, and I wanted to
21 state on the record that my comments regarding
22 earnings earlier were not correct. I wanted to advise
23 that there's no need for you to brief that issue in
24 the post-hearing.

25 Having said that, the earlier comments that

1 I had made regarding the composition of imports
2 between subject and non-subject and that shift, those
3 comments are good and they stand.

4 Probably for purposes of post-hearing,
5 unless someone has something they really want to say
6 now, I'd like your interpretation of why it isn't a
7 reasonable thing to look at this record and see it as
8 one in which the domestic industry serves a sizable
9 share of the U.S. market, because it's very good at
10 doing that; and there are imports in the market. But
11 what this record shows is that the most interesting
12 shift, when the orders went into effect, was what
13 happened among the various importers, subject and non-
14 subject, rather than what was happening between
15 imports on the domestic industry.

16 So in that context, why wouldn't we expect a
17 lifting of the orders to result with still the
18 domestic industry serving a sizable share of the
19 market, and perhaps meaningful changes in terms of the
20 composition of imports? I see that Dr. Kaplan wants
21 to say something about that.

22 MR. KAPLAN: I just would ask you to look at
23 what happened to prices, and to look very closely at
24 the two years you indicated that we should compare and
25 the logic that you brought to that comparison for

1 finding no effect; now, with the numbers being
2 clarified, and knowing what's happening with prices,
3 the consequences of that logic on what the future
4 effect would be.

5 It's all kind of cryptic, because it was
6 confidential information. But I just want to point
7 out that if the logic still holds, the conclusions
8 might differ, now that you've seen that the numbers
9 have changed. It's very cryptic.

10 COMMISSIONER PEARSON: Okay, Mr. Leland?

11 MR. LELAND: Yes, sir, Martin Leland with
12 U.S. Steel -- I would say that if they came in, their
13 objective would be, since these mills are AML
14 approved, they can switch with U.S. Steel. Their job,
15 they would very smartly come in, underneath us, after
16 our business. I would expect they would not try to
17 come in here, after the Chinese or the lower end, to
18 sell product and have those kind of numbers. I would
19 expect them to come in slightly underneath us, or
20 enough underneath us to get business and take our
21 market.

22 The way they would do that, they would go
23 after our distribution to sell it for them. They
24 would give our distribution incentives to buy from
25 them at lower prices, higher than the Chinese but

1 lower than us. At the end of the day, our
2 distributors would be forced to, or would, give them
3 purchase orders that would be coming to U.S. Steel.

4 MR. SCHAGRIN: Just to reinforce what Mr.
5 Leland said, to the extent to the domestic industry
6 could hold onto what already is not a huge share of
7 the market, because imports do take a significant
8 share of these markets, they would have to do so at
9 the expense of price.

10 So to the extent that the domestic industry
11 is able to hold share against a new group of subject
12 imports, as well as non-subject imports, it clearly
13 would be at the expense of price; and, of course, the
14 expense of price would be at the expense of
15 profitability.

16 COMMISSIONER PEARSON: Okay, well, let me
17 shift gears and move to what I hope is my final
18 question. Earlier, it's been stated that the fact
19 that the global industry is more consolidated among
20 multi-nationals creates a greater threat from
21 increased import penetration, if the orders are
22 lifted. I'm not quoting anybody. I'm just
23 characterizing what has been said.

24 But why should we assume that? You know,
25 doesn't consolidation, both in the domestic and global

1 industry, likely lead to more careful marketing and,
2 thus, greater discipline on pricing; and why should we
3 see more risk from a multi-national that has
4 production in several countries?

5 One would think they would have an incentive
6 not to drive down the price in the U.S. market,
7 because they might want to serve it from, you know,
8 different plants at different times. What good does
9 it do them to have a low price in the U.S. market? Is
10 there any comment on that?

11 MR. LELAND: Martin Leland, again, with U.S.
12 Steel -- I think the way I look at this, you get the
13 feeling some time, you know, U.S. Steel is big in the
14 steel industry here in this country. We need to keep
15 in mind that when we talk of Mittal, if they do indeed
16 get Arcelor, we're talking about a company that will
17 be six times the size of U.S. Steel. You're talking
18 about a Tenaris, which is absolutely the most
19 aggressive and the people that will most aggressively
20 come after this market. They have pipe capability
21 three times the size of U.S. Steel.

22 So you're looking at two giants that could
23 come in here, and I don't think they would come here
24 just to take the S&L market or even take the small OD
25 or the large OD. I think that the game plan would be

1 to come in here and disrupt the market to such a
2 degree that their ultimate goal would be to shut us
3 down. Tenaris, especially being as big as they are,
4 has historically operated in that manner, outside the
5 United States.

6 COMMISSIONER PEARSON: But isn't it also
7 reasonable to imagine that the management of those
8 multi-national companies is relatively sophisticated -
9 - perhaps more sophisticated than the management of
10 the individual firms had been, before they were
11 grouped together? Are we to assume that sophisticated
12 management would take action that they could be
13 reasonably certain would cause themselves to be
14 subject to a new anti-dumping order and, thus, be
15 excluded from this market; Mr. Vaughn?

16 MR. VAUGHN: Well, Mr. Leland knows more
17 about Tenaris. But I'll just make a legal point,
18 which is that, you know, dumping is often a very
19 rational thing to do. I mean, you know, once you
20 start making steel or once you start making a product,
21 the marginal costs of the additional production are
22 not necessarily all that expensive. If you can dump
23 that at a lower price in another market, then that
24 makes sense. That's what you should be doing; and
25 particularly, if you have some of the goals that Mr.

1 Leland talks about, about really gaining huge market
2 share in this country. That makes even more sense to
3 do it.

4 So I think the fact that you're a large,
5 rational company, to me, that argues that you're going
6 to be very aggressive in all markets.

7 COMMISSIONER PEARSON: But doesn't it depend
8 a lot on whether the management has a short-term
9 timeframe or a long-term timeframe? Because I agree
10 with your point, that in the short-term, such a
11 company could put a lot of product into the United
12 States at low prices; just get it dumped to get it
13 there. But wouldn't they almost have to be ignoring
14 the very real probability that this industry would
15 bring another dumping case, and that they would get
16 shut out? Do they want to get shut out for a five
17 year period or longer of the world's largest market
18 for this pipe?

19 MR. VAUGHN: Well, remember that during the
20 original investigations, you had some huge companies
21 that weren't even covered by those investigations. I
22 mean, Sumitomo, for example, they're an enormous
23 company. Apparently, they felt like it was worth
24 taking that chance.

25 You know, if you look at a lot of the other

1 dumping cases or other steel cases that the Commission
2 has dealt with in the past, a lot of times, you've had
3 large multi-national corporations on the other side.
4 They've looked at the numbers, and they decided to
5 take that risk.

6 That's the history of this industry, and
7 it's a history that goes back a very, very long way.
8 I think the Commission has to assume that that's the
9 way these companies have behaved in the past, and
10 that's the way they are likely to behave in the
11 future.

12 COMMISSIONER PEARSON: Are there any final
13 comments before my time expires?

14 MR. SHOAFF: John Shoaff for Sooner Pipe --
15 I would go along with Mr. Vaughn and agree with that.

16 In the case of Tenaris, we've seen
17 consistency over the past few years of, what did you
18 call it -- you made the comment that management, you
19 would like to think they'd be sophisticated. But
20 they've been very consistent in being what we look at
21 as irresponsible in the marketplace with regard to
22 pricing, and that's over the entire world.

23 They've been very tenacious. They're very
24 concentrated on the market share. Basically, their
25 philosophy is, we don't want to lose an order,

1 especially in our back yard; but we don't want to lose
2 an order, period. That's been very consistent with
3 regard to Tenaris along the way.

4 I would just make one comment. From a
5 distribution standpoint, you know, we heard our
6 opposition in the opening statements talk about the
7 profits of our producers, being compared to Microsoft.
8 Again, we're looking at a couple year period. We've
9 had it pretty nice here. Up until that time, there's
10 been some rough times.

11 But I think, as distribution goes, we're
12 really up here almost on the defensive nature. Sure,
13 we enjoy the profitability of the last year and-a-half
14 or two years, an we want to continue that. But we're
15 more concerned about losing money, going forward, with
16 unfairly traded imports coming in here than we are
17 about losing our profits, quite honestly, because
18 we've seen this thing turn on a dime. We've heard
19 comments in here also about, well, for the foreseeable
20 future, it looks really good. Well, I think in
21 Martin's opening comments, he made the statement that
22 things aren't always what they seem.

23 So there's a whole lot of history sitting
24 here in these tables. All I can say here is, we've
25 seen this thing. It's a very, very volatile business,

1 as you can see by virtue of Mr. Schagrín talked about
2 gas pricing going from \$15 or \$16 now to \$7. We've
3 had warm winter. That's something we can't control.
4 You had the storms in the Gulf. That's something we
5 can't control.

6 So those are the risks that Mr. Broglie
7 talked about in his opening statement that we deal
8 with on an every day basis. But the one thing we
9 think we do have some say-so or some control in is why
10 we're here today, and that's these unfairly traded
11 imports. That's why we're here today, and those are
12 the risks that we see every day.

13 COMMISSIONER PEARSON: Okay, thank you, Mr.
14 Shoaff. Mr. Chairman, my time has expired.

15 CHAIRMAN KOPLAN: Thank you; Commissioner
16 Aranoff?

17 COMMISSIONER ARANOFF: Mr. Chairman, I have
18 a question on pricing. In some of the steel sunset
19 cases that we've seen recently, we've heard of a
20 practice that mills sometimes use if they see a
21 shipment of some particular size of low-priced imports
22 kind of on a boat, heading toward the market, they
23 will introduce like a foreign fighter pricing program,
24 you know, around a particular port or area where that
25 product may come in.

1 Is that something that producers do in this
2 industry, or is there a reason about the way the
3 product is sold or distributed that makes that
4 ineffective?

5 MR. LELAND: Mark Leland, U.S. Steel -- we
6 have done that in the past. We've had foreign fighter
7 programs years ago. We found out, again, and after
8 doing this for 40 years, we finally figured out that
9 you just can't chase them down. Today, that would not
10 be an option for U.S. Steel. We see no reason. Once
11 you start that, you never recoup the price levels that
12 you have to go to. Because as soon as you go to that
13 foreign fighter number, if I do it for Mr. Schoaff, I
14 have to do it for Mr. Binder, I have to do it for Mr.
15 Durham; and pretty soon, I'm doing it for everybody,
16 and that becomes your market price.

17 So we agree, what you've heard has happened
18 in the past. It happened years ago. We haven't done
19 it in some time, and I would say we have no interest
20 in doing that today.

21 COMMISSIONER ARANOFF: I take your answer,
22 would it matter to you -- I mean, you've mentioned
23 that the Chinese prices are particularly low, and so
24 maybe you wouldn't try and fight non-subject imports
25 that way.

1 You've also suggested to us that if subject
2 imports were to re-enter the market, they might come
3 in a little higher up. Would it make that strategy
4 more worth your while if you feel like these are
5 large, international companies which want to take your
6 market share away in kind of a predatory way?

7 MR. LELAND: Well, again, I just go back to
8 before. If we let them get to that point, eventually
9 we will all wind up with the lowest denominator, which
10 will be the lower imports. Then we will be back where
11 we were at this \$500 and \$600 ton pipe. It really is
12 a slippery slope, and it takes everybody in this room
13 with it. I hope that answers the question.

14 COMMISSIONER ARANOFF: It does, thanks. Was
15 there another comment over there, Mr. Clark?

16 MR. CLARK: Yes, a quick comment -- Ronny
17 Clark with R&M -- we did the same thing, three or four
18 years ago, to try to maintain some market share with a
19 duo-grade product that was less than the quad-grade,
20 obviously, to compete with unapproved. But all it did
21 was, like Martin said, it deteriorated everything we
22 had in our high-end product, and we've eliminated that
23 from our portfolio.

24 MR. SCHAGRIN: Can I just clarify,
25 Commissioner Aranoff? Because I don't want you to

1 mis-interpret. I can see somebody taking an opposing
2 counsel, if they participated, taking a quote from the
3 record and saying, oh, Mr. Leland said he wouldn't
4 drop his price to compete.

5 I think, just to clarify, that what he was
6 saying is, he wouldn't try isolated foreign fighter
7 prices, which is your question. That doesn't mean he
8 wouldn't drop all of his prices to compete with
9 subject imports, as he came back. He just wouldn't
10 drop them individually in a port or to a distributor.
11 He and the rest of the domestic industry would likely
12 have to drop their prices across the board.

13 I think the nature of this industry, you're
14 really talking about a dozen to maybe two dozen
15 distributors who handle the whole market. So unlike
16 maybe flat-rolled steel, where there's thousands of
17 service centers, in a market as tiny as a couple of
18 dozen distributors, the ability to offer one small
19 price and not have everybody know about, I don't think
20 is possible, in terms of market information. So it's
21 likely the prices either fall for all or stay for all.

22 COMMISSIONER ARANOFF: Okay, I appreciate
23 all of those answers, and I want to thank the panel
24 for being here with us this morning and part of this
25 afternoon. Mr. Chairman, I have no further questions.

1 CHAIRMAN KOPLAN: Thank you, Commissioner; I
2 have a bit left. Counsel, first, the distributors
3 here today testified that if prices were to fall, it
4 would lower the value of their inventories. How does
5 the volume of inventory held compare with production
6 in these industries?

7 I wonder if you can provide data on the
8 inventory levels held by distributors on a monthly or
9 quarterly basis, for purposes of the post-hearing; and
10 if so, if it's possible to provide that separately,
11 breaking out large and small diameter pipe; Mr. Hecht?

12 MR. HECHT: We will endeavor to do that, if
13 we can.

14 CHAIRMAN KOPLAN: Okay, Mr. Schagrין?

15 MR. SCHAGRIN: I would just add, Mr.
16 Chairman, that while we were working on our pre-
17 hearing briefs, as we do in many cases, we checked the
18 MSCI, Metal Service Center Institute, to see what data
19 they had on inventories. We checked even Preston Pipe
20 and it seems -- and I don't want to get your
21 expectations up, because ours were already dashed,
22 just working on our pre-hearing brief -- that for
23 seamless line pipe, there aren't sources of normally
24 reported inventory data.

25 Now maybe we could talk to a few of these

1 larger distributors who are here for providing
2 separate data for the post-hearing. But I think --
3 and I'll talk to Mr. Hecht about that later -- I don't
4 think we're going to find a source that covers the
5 whole industry as we would for, say, flat-rolled with
6 MSCI. So I just wanted to give you that caveat. Of
7 course, we'll do everything we can, Mr. Chairman, for
8 our post-hearing brief.

9 CHAIRMAN KOPLAN: I appreciate that.
10 Whatever you can provide would be helpful, thank you.

11 Mittal argues at page 16 of their brief that
12 if the figures reported to the Commission regarding
13 the small diameter CASSLP pipe capacity utilization
14 rate, and the rate is bracketed, for January through
15 September 2005 were, and I quote, "anywhere near
16 accurate as an indicator of the domestic industry's
17 true production capability, it would render impossible
18 the combination of declining shipments and explosively
19 increasing prices observed during 2005."

20 Although they, and again I'm quoting, "may
21 accurately reflect the capability to process billets
22 and tube rounds into pipes and tubes, they do not
23 appear to reflect the real world availability of these
24 semi-finished shapes themselves. In short,
25 Petitioners have clear capacity constraints, which are

1 not reflected in the data submitted in the
2 questionnaires."

3 Are there shortages in the supply of billets
4 and tube rounds that constrain your ability to produce
5 small diameter CASSLP? If so, for the post-hearing,
6 will you re-calculate your capacity, taking such
7 constraints into account? If not, how do you explain
8 the decline in shipments between interim 2004 and
9 interim 2005, despite the fact that prices increased?
10 I'd like to hear from the domestics on this; Mr.
11 Broglie?

12 MR. BROGLIE: Okay, on the supply of rounds,
13 we have no shortages. We have no problem obtaining
14 rounds. In fact, during last year, we increased our
15 capacity at Fairfield to supply Lorain with additional
16 sizes. There are also a lot more suppliers out there
17 that have rounds available to us.

18 CHAIRMAN KOPLAN: Thank you; anyone else,
19 Mr. Lindgren?

20 MR. LINDGREN: Chairman Koplan, we don't
21 make small diameter line pipe.

22 CHAIRMAN KOPLAN: I didn't hear you.

23 MR. LINDGREN: We don't make small diameter
24 line pipe. But with our large diameter, as I stated
25 in my testimony, we are consistent with our 20

1 percent.

2 CHAIRMAN KOPLAN: Okay; yes, Mr. Leland?

3 MR. LELAND: From a marketing side, beyond
4 this thing, one of the reasons we haven't sold more
5 small diameter standard line pipe was, we didn't have
6 the orders for it.

7 I mean, it is a marketing situation. Like
8 Mr. Durham said, you know, he doesn't want us to go
9 and make another 50,000 tons and mess things up on our
10 own. What we do is, we get orders from our
11 distributors and we fill them. In that timeframe
12 you're talking about, that was the order book that we
13 had from our distributors and we made that pipe.

14 CHAIRMAN KOPLAN: Thank you; if I could stay
15 with the producers, now centering on large diameter.
16 The pre-hearing staff report, at Chapter 4, page 29,
17 footnote 26, notes that, I quote, "As there were a
18 number of specific exclusions in the Commerce scope
19 definition of large diameter CASSLP pipe, adjusted
20 Commerce data used in this section depicting U.S.
21 imports from Japan and non-subject countries may be
22 overstated."

23 I note that the brief filed on behalf of
24 U.S. Steel in discussing imports from Japan submits at
25 page 21 that, and I quote, "Almost all of this tonnage

1 consists of non-subject product that has been excluded
2 from the scope of these reviews."

3 First, what kind of pipe is continuing to
4 enter, subject to a duty between 68.88 percent and
5 107.8 percent? Secondly, what is the best way for
6 staff to determine the volume of subject imports of
7 large diameter CASSLP pipe in each year and
8 distinguish it from pipe that is excluded in the scope
9 of these investigations; Mr. Vaughn?

10 MR. VAUGHN: Yes, if I could just address
11 that briefly. Our belief is that very, very little,
12 if any, of the imports you're seeing from Japan and
13 Mexico are the subject product. Your point about the
14 margins, we totally agree with; that the margins are
15 very high, and that it would be very difficult for
16 them to get anything shipped in here.

17 With respect to Mexico, we have a fairly
18 detailed record of administrative review proceedings
19 at the Department of Commerce, where the record there
20 clearly shows that TAMSA was not shipping shipping
21 subject product to this market. So I think with
22 Mexico, the record is pretty clean.

23 I think the issue is a little more
24 complicated with Japan, because you don't have the
25 type of administrative review data. However, you do

1 have data from one producer, which you can take a look
2 at; the one that did respond. Again, this is another
3 issue where, you know, responses would have been
4 helpful.

5 You also have the fact that there were
6 administrative reviews that were begun, and in those
7 administrative reviews, several letters were filed by
8 Japanese producers stating that they had not shipped
9 any subject product. I believe we've submitted those
10 letters to the Commission, as well.

11 You can also just take a look, for example,
12 at the figures with respect to the Byrd distributions
13 under this order, and I think that also indicates that
14 we're dealing with a very small number of imports. So
15 I think it is very difficult to get exact numbers on
16 this, given the lack of responsiveness from Japanese
17 producers. But I think the Commission can be
18 comfortable that those numbers consist almost entirely
19 of non-subject imports.

20 CHAIRMAN KOPLAN: Thank you; let me stay
21 with counsel. Respondents, at page four of their
22 brief, argue the conditions of competition in the
23 current investigation are similar to those in the 2002
24 case involving oil country tubular goods from Austria,
25 Brazil, China, France, Germany, India, Indonesia,

1 Romania, South Africa, Turkey, Ukraine, and Venezuela.
2 I'd like to tell you I had that memorized.

3 Respondents cite U.S. ITC Pub. 3511 which
4 states at 21, "The data do not indicate that the mixed
5 under-selling by imports of the subject merchandise
6 contributed importantly to observed price trends for
7 the domestic like product; nor has the under-selling
8 precluded the domestic industry from generating
9 substantial income during the past two years."

10 And at page 25, "Despite increases in
11 subject import volume, the domestic industry
12 experienced substantial improvement in almost all
13 major indicators of industry performance during the
14 period examined."

15 If I were to find it likely that subject
16 imports would increase if the orders were revoked, but
17 the domestic industry was likely to be able to
18 continue to generate substantial income, would you
19 consider this to be a resumption of material injury;
20 Mr. Hecht?

21 MR. HECHT: Again, I think it goes back to
22 some things we've said before. I think, obviously,
23 the magnitude of the changes you're talking about
24 would be relevant. But from our standpoint,
25 depressing profits on one end of the cycle is just as

1 damaging as on another end of the cycle.

2 I guess, going back a little bit to
3 something that Commissioner Pearson said before, in
4 terms of the use of this weighted average cost to
5 capital, I guess I have a slightly different take on
6 it; which is, when you look at these various
7 profitability numbers, I know I, as a lawyer, wouldn't
8 feel comfortable saying what should they make. I'm
9 not sure if you guys would, either.

10 I think the idea behind that is, it really
11 does give you a market-based way to measure what this
12 industry should be earning over time. It gives you
13 kind of a reality check, so you don't have to just
14 wing it or make it up.

15 Again, I think in the context of an industry
16 that has not made its weighted average cost of capital
17 over this extended period of time, that any effect
18 that would lower its returns going forward, even if
19 they were still profitable, would have a serious
20 impact.

21 CHAIRMAN KOPLAN: Thank you; Mr. Schagrin?

22 MR. SCHAGRIN: Well, I would just add
23 briefly, the conditions of competition, particularly
24 as you quoted from their brief related largely to
25 under-selling, couldn't be more different between

1 these original investigations and the OCTG
2 investigation cited.

3 In that OCTG investigation, there was a
4 significantly mixed pattern of under-selling, and it
5 certainly didn't help the domestic industry in trying
6 to win the case.

7 In this, the only real record you have on
8 under-selling, because at least with large diameter,
9 you really have no imports over the POR. The
10 Commission found very clearly that there was
11 significant under-selling, and that under-selling had
12 increased significantly at the end of the period of
13 investigation by the subject imports.

14 So on under-selling alone, the conditions of
15 competition between the imports and the large diameter
16 seamless line pipe investigation and the OTCG
17 investigation are completely different; and I don't
18 think that argument is appropriate to this sunset
19 review.

20 CHAIRMAN KOPLAN: Thank you, and thank you
21 to all of you for the answers to my questions. I'll
22 turn to Commissioner Hillman.

23 VICE CHAIRMAN OKUN: Vice Chairman Okun.

24 CHAIRMAN KOPLAN: Oh, I did it again. The
25 hour is late -- Vice Chairman Okun.

1 VICE CHAIRMAN OKUN: The hour is still
2 early. I'm going to return to the question about how
3 we treat non-participating parties here, and I know
4 you've had a chance to talk with Commissioner Lane
5 about it.

6 But I did want to go back, because we have
7 counsel who practiced before here. The thing that
8 strikes me, in listening to all this is, you know, I'm
9 hearing this again and again. We've got non-
10 responding, take adverse inferences, you know.

11 And what I heard you say, Mr. Hecht is, you
12 know, the institutional interests of the ITC, which I
13 think the Commission cares deeply about -- yes, we'd
14 all like to have participation. It's always better.
15 I mean, I've said it a hundred times. I'd much rather
16 see a full record before us from the people producing
17 it, to make a decision.

18 But if I'm sitting right there, if I'm on
19 the back row right now, the row behind you, who will
20 hear this afternoon, and you've got parties from
21 countries and producers who've participated, who've
22 shown up, who have given them questionnaires and their
23 numbers, you know, they're not bad, in terms of some
24 these numbers are numbers we see from domestic
25 companies when they bring a case before us.

1 So you have one big country we're talking
2 about. We're talking about Japan, all right? You're
3 talking about Japan, Japan, Japan, you know. So if
4 you're sitting back there, and you're one of these
5 guys who has participated, and the Commission
6 continues to say, okay, you know, if we have to wrap
7 them all up, but we can't get them out of cumulation,
8 then even if you participate, you're going to lose.

9 So how does that serve the institutional
10 interest to encourage participation? Shouldn't we
11 now, sitting here, as I look at this second round of
12 sunsets and say, why don't I just go to -- I'm going
13 to de-cumulate anybody who doesn't show up here and
14 make their case, and I'm going to look at the other
15 case on the merits?

16 MR. HECHT: Well, the problem, I guess, that
17 I would see with that is, then you're putting the
18 domestic industry at an unfair position, if you de-
19 cumulate and look at them differently. I would
20 acknowledge, first of all, there were non-responding
21 parties among the Czechs and Romanians, as well, as I
22 recall; not an insignificant amount.

23 But again, I think you do have to look at it
24 from both sides. Because if you are worried about the
25 responding parties and the effect of them, you have to

1 also worry about the domestic parties, and what is the
2 fairness of the investigation where they're allowed to
3 pick and choose. Substantial huge producers are
4 allowed to pick and choose; whereas, we're not allowed
5 to.

6 I, sitting here as the counsel -- and I
7 don't want to engage in hyperbole -- but I almost
8 wonder, if you're advising those industries as a
9 lawyer, do you have a duty to tell them not to
10 participate, if their private data is worse than the
11 public data; if it's not illegal, if there's no harm -
12 - you know, if there's no subpoena power, if there's
13 no consequence to it before the Commission?

14 So I think it really is a conundrum and a
15 very difficult situation. I think Congress has spoken
16 to it. Congress has given you the authority to apply
17 adverse inferences. I cannot imagine more of a test
18 case to do it than this one, where you have such an
19 enormous lack of response. So I do think you can
20 apply adverse inferences, and treat that as stated on
21 the record.

22 VICE CHAIRMAN OKUN: Mr. Schagrín?

23 MR. SCHAGRIN: Once again, I agree with Mr.
24 Hecht. I also agree with you, Vice Chairman Okun,
25 with your reticence to have a party that has fully

1 participated -- a foreign party that has fully
2 participated in all aspects of these investigations;
3 and should they automatically be not sunset, because
4 of the non-participation of other parties.

5 I would argue to you that whether we agree
6 or disagree with the way the statute was drafted, the
7 way the regs were drafted, the way you interpret it,
8 that the no discernable adverse impact criteria gives
9 a party the opportunity, with a burden on that party,
10 to demonstrate to the Commission, through their
11 participation, that the producers from that country,
12 if they are let out of the case, will have no
13 discernable adverse on the U.S. market.

14 Obviously, the only way they can meet that
15 burden is through full participation. But I believe
16 that this Commission has given parties that
17 opportunity. I have participated in a number of large
18 group investigations here, in which specific countries
19 have been taken out by the Commission, by a majority
20 vote of the Commission, based on no discernable
21 impact.

22 I believe that's really the avenue for the
23 Commission to find the weighted equities here. That
24 is, if you don't really draw adverse inferences
25 against non-participants, then they are going to game

1 the system. I think that what's amazing is, as Mr.
2 Hecht pointed out, the non-participation isn't coming
3 from, I'll use a fictional place, the tim-buck-twos of
4 the world, so I don't anger any particular country.
5 But people were really unable to participate in
6 assistance.

7 The non-participation is coming from the
8 most sophisticated players in the world, with the most
9 high priced Wall Streets in the city. It's like,
10 they've got their own AMLs, and usually, they've got
11 Wall Street attached to that AML for their council.
12 So they're getting the best advice they could possibly
13 get, and they're being advised not to participate.

14 If you don't draw adverse inferences, I
15 don't think you'll be able to change that. Yet, I
16 think you have the ability, in terms of looking at the
17 equities, that if a party can prove to the Commission,
18 through their full participation of no discernable
19 adverse impact, that's how you can reach the equities.
20 You have to judge them based on the record and the
21 information they've presented through their
22 participation; and then try not to harm them or the
23 domestic parties by not drawing adverse inferences.

24 VICE CHAIRMAN OKUN: I appreciate those
25 comments. I will think about that. Because the other

1 part of that, again, is that to the extent -- and this
2 happened a few years back in the first round of
3 sunsets -- that we had participation from big
4 producers. Their presence here was then used by
5 domestic counsel to say, this shows evidence of
6 interest in the market. How can you take them out on
7 no discernable adverse impact if they're here? Why
8 else would they be here if they didn't have an
9 interest

10 MR. SCHAGRIN: Vice Chairman Okun, you don't
11 fall for that.

12 (Laughter.)

13 VICE CHAIRMAN OKUN: You didn't make the
14 argument.

15 MR. SCHAGRIN: You all are too smart. Any
16 lawyer making this argument to this very sophisticated
17 Commission is really wasting their breath. We're not
18 going to win sunset cases because people are
19 participating. That's not going to make the day for
20 us. I don't know who is trying to sell that to you,
21 but I don't think you guys are buying those kinds of
22 arguments. So that shouldn't harm them. People
23 should participate. It's the right thing to do.

24 VICE CHAIRMAN OKUN: Mr. Kaplan?

25 MR. KAPLAN: In any early case, where I was

1 working opposite Mr. Schagrín, he looked at the
2 Commission and said, "Would we be here if we weren't
3 injured?"

4 So I think that the mere fact of
5 participation on either side is allows you to look at
6 the facts. But showing up doesn't show guilt or
7 innocence on either side. I think that if they don't
8 show up, however, especially in a sunset review, where
9 what actions in their country and what they'll take is
10 not set by them, I think it doesn't rely on what's
11 going on in the U.S. market as much as the foreign
12 market. The lack of information is even more
13 deleterious in terms of how you could reach your
14 conclusion.

15 VICE CHAIRMAN OKUN: I appreciate all those
16 comments. I wanted to return also to one other area,
17 which has to do with the multi-national corporations
18 and how we take that into account. I know that
19 Commissioner Aranoff had a chance to talk about
20 whether it should be a discretionary factor in
21 cumulation.

22 Mr. Hecht, you and your overheads had
23 included the language that the Commission had used in
24 the original case and, that, of course, was appealed.
25 When I read what we had to say about Trans-National

1 Corporation, it seemed to me that at least one judge
2 bought it in terms of, you could show the sales force
3 and distribution networks.

4 It's not clear to me on volume whether it's
5 a volume argument, and we talked a little bit about
6 it. But I wanted to spend a little more time on that
7 to understand how you would have us make the volume
8 argument when you have multi-national corporations.

9 I do want Mr. Lindgren to comment. Because
10 again -- and I'm not going to stand by these numbers;
11 I haven't checked them myself -- but if you look at
12 global tubular production, the figures I come out with
13 show V&M being as large as Tenaris on a percentage
14 basis in global tubular products. Mittal is smaller.
15 Generally, we talked about Mittal. But Mittal was
16 here a few weeks or a couple of months ago as part of
17 the domestic industry on another product.

18 So we increasingly have, I think, a very
19 multi-national nature, with the big Japanese
20 companies. Well, I don't know. I'm not going to
21 speculate on that.

22 But I guess my question is, if we have a
23 member of a big global player sitting here in large
24 diameter, should I look at the fact that Tenaris owns
25 factories in Argentina and Italy that are coming in

1 here -- should I look at it and say, okay, that means
2 they're going to bring in everything? I heard the
3 distributor back here say that they're market-share
4 driven.

5 So I guess I'm just wanting some more
6 information that we could put in the record. Because
7 I think we made this statement, and I believed we
8 should put it in there at the time. I'm now trying to
9 figure out, how do you back that up and say that they
10 will increase their volume at the expense of another
11 factory in another country, when Western European
12 prices might be higher right now.

13 My time has run out, but this will be my
14 last question, if I could get a response.

15 CHAIRMAN KOPLAN: No problem.

16 VICE CHAIRMAN OKUN: Okay, so I want to
17 start with you, Mr. Lindgren, or Mr. Clark, in terms
18 of what you think. What does it mean for volume for a
19 big player? Do you have anything you can share with
20 us? You could do it post-hearing, too.

21 MR. CLARK: Well, one thing they don't have
22 is a domestic supplier. When you look at Japan and
23 you look at Mexico, what they do, they have to come in
24 to this market and compete at levels below our prices.
25 That's how they gain market share. That's how they've

1 proven they gained market share in the past, and
2 that's how they'll do it in the future.

3 We supplement the V&M Star size range with
4 product outside the U.S., and it's gained credibility
5 because of V&M Star and the work we do. It's really a
6 non-import product. It's more of a high end product.

7 So, I guess, the point is that they don't
8 have operations here. If they did, I think it would
9 be different for them. They're going to continue to
10 come in under the domestic price to take share.

11 VICE CHAIRMAN OKUN: Okay, so the fact that
12 in this case they would all be -- it said, multi-
13 national corporation that doesn't have a domestic
14 presence. Therefore, they're just going to be focused
15 on market share, because they're not hurting anybody
16 established here. Is that correct?

17 MR. CLARK: That's correct.

18 VICE CHAIRMAN OKUN: Okay, and let me just
19 ask the distributors. Because one of the comments I
20 was trying to understand -- for the distributors that
21 are here, someone, I think, had said that they can't
22 carry. But I think Tenaris has its own distribution
23 network. Is that the same for Mittal, or did I hear
24 that correctly? I wanted to make sure I understood
25 that.

1 MR. DURHAM: This is Jim Durham, again.
2 From Tenaris, they worked very little through
3 distribution. I'm only aware of one large distributor
4 that they have. I mean, they will not sell us, if we
5 go to them with an inquiry, from any of their mills.

6 Mittal, I think, has a fairly open
7 distribution policy. In fact, the only frustration
8 we've had with Mittal in the past is that one of the
9 trading companies that was representing them would
10 take orders for very, very small quantities for
11 futures coming in on boats that, really, a lot of
12 those people they were taking the orders from were
13 actually our customers. So you've got two extremes
14 there.

15 But I think that we don't disagree with the
16 way that Mittal, in general, operates their business.
17 In fact, we buy a lot of pipe from them, and we would
18 hope to continue to do so in the future.

19 VICE CHAIRMAN OKUN: Okay, Mr. Leland, if I
20 could just ask you.

21 CHAIRMAN KOPLAN: Absolutely.

22 VICE CHAIRMAN OKUN: Then I'll ask more in
23 the post-hearing. I've violated the time.

24 MR. LELAND: This will be quick. But I
25 don't want to leave the impression here that Tenaris

1 does not sell through distribution. They do sell
2 through distribution. They sell through some major
3 distributors here in this country. So they are not
4 direct-only type people. But they would be more apt
5 to go direct than they would other companies. But
6 they do sell through distribution. They do sell to
7 distributors.

8 VICE CHAIRMAN OKUN: To distributors, okay -
9 - for post-hearing, it would help, if there's any more
10 information you can provide, working with the
11 purchasers that we have here and others, both on this
12 question of the distribution network with Tenaris and
13 Mittal, but also whether the distributors here or that
14 supplied information have any relationships where they
15 only sell U.S. product. You can do that post-hearing.
16 Thank you very much for all your answers, and thank
17 you, Mr. Chairman, although I think you just took it
18 out of our lunch.

19 CHAIRMAN KOPLAN: I did, yes; that's what is
20 happening. Commissioner Hillman?

21 COMMISSIONER HILLMAN: I have no further
22 questions. But I would like to thank this panel very
23 much for the extremely helpful answers and for your
24 patience and perseverance with us; thank you.

25 CHAIRMAN KOPLAN: Commissioner Lane?

1 (No response.)

2 CHAIRMAN KOPLAN: Commissioner Pearson?

3 (No response.)

4 CHAIRMAN KOPLAN: Commissioner Aranoff?

5 (No response.)

6 CHAIRMAN KOPLAN: I'm afraid I do have
7 questions, but it will be for the post-hearing. I'll
8 predicate it that way.

9 I've got a related group of four short
10 questions I'd like you to address in the post-hearing
11 counsel. These questions are prompted by the BPI,
12 based on questionnaire responses contained in Table 3-
13 1 of the pre-hearing report that provides U.S.
14 producers capacity production and capacity utilization
15 for small diameter CASSLP pipe for the review period.

16 First, is the CASSLP pipe industry a
17 capital-intensive industry in which equipment must be
18 operated at near maximum capacity in order to spread
19 fixed costs over as large a volume as possible?

20 Second, are there production facilities that
21 would be taken out of operation if prices fell?

22 Third, are there production facilities that would be
23 put into operation if prices increased?

24 Fourth, what change in price, over what
25 period of time, would it take before production was

1 decreased or increased in response to a change in
2 price? Did you get it?

3 MR. HECHT: Yes, we did, and we will respond
4 to that.

5 CHAIRMAN KOPLAN: Thank you very much, and
6 with that, I want to thank you all.

7 MR. SCHAGRIN: Chairman Koplan, the last
8 thing I want to do is keep us from getting to lunch.
9 But I just wanted to clarify in this transcript. I
10 thought I heard you say you just wanted that addressed
11 as a small diameter pipe. Did I understand your
12 question?

13 CHAIRMAN KOPLAN: That's the question.

14 MR. SCHAGRIN: Thank you very much, Chairman
15 Koplan.

16 CHAIRMAN KOPLAN: That gets you off the
17 hook.

18 MR. SCHAGRIN: Thank you very much; I'll
19 enjoy lunch a little bit more now, thank you.

20 CHAIRMAN KOPLAN: Thank you; Vice Chairman
21 Okun, I'm coming back to you. I don't want to skip
22 over you.

23 (No response.)

24 CHAIRMAN KOPLAN: Nothing further; if
25 there's nothing further from the dias, Mr. Cassise,

1 does the staff have questions of this panel before
2 they are released?

3 MR. CASSISE: Mr. Chairman, for the record,
4 Chris Cassise, Office of Investigations -- members of
5 the staff have no questions.

6 CHAIRMAN KOPLAN: Thank you; Mr. Gurley, do
7 you have questions of this panel before they're
8 released?

9 MR. GURLEY: No, we do not.

10 CHAIRMAN KOPLAN: All right, well, with
11 that, we'll break for lunch. But because of the hour
12 and so we can get started, I would break for a half
13 hour. We'll come back around a quarter of 3:00. I
14 would advise you or remind you that the room is not
15 secure. So you need to take anything that is BPI with
16 you, and I'll see you back here in a half hour.

17 (Whereupon, at 2:16 p.m., the hearing in the
18 above-entitled matter was recessed, to reconvene, this
19 same day, Thursday, March 2, 3006.)

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22 //

23 //

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1 global demand for line pipe in OCTG is at high levels,
2 and is expected to stay that way. Third, approved
3 manufacturing lists are critical component of the U.S.
4 industry from which most of our companies are
5 precluded. Fourth, foreign producers are busy and
6 will divert capacity away from OCTG and other
7 products, which are even more lucrative. Fifth, the
8 subject countries face very few, if any, meaningful
9 trade barriers in third countries. And lastly, China
10 cannot serve as the boogie man in this review. In
11 short, we hope to demonstrate the true state of the
12 U.S. seamless pipe industry and provide insight as to
13 why the seamless pipe market will remain excellent,
14 even if the antidumping orders are revoked.

15 My first witness today will be Mr. George
16 Allen of Mittal Steel North America. George?

17 MR. ALLEN: Good afternoon. My name is
18 George Allen. I'm employed by Mittal Steel North
19 America and my title is manager of energy tubular
20 sales. I've worked in the seamless pipe industry for
21 over 30 years. During my years in this industry, I've
22 been active as a steel pipe distributor for several
23 domestic mills, including United States Steel. I've
24 been a purchasing agent for an energy company,
25 purchasing all country tubular goods; a pipe

1 inspection company executive and a partner of an API
2 processor for tubular goods. During my years in the
3 industry, I've had the opportunity to visit almost all
4 the U.S. mills producing seamless pipe product. This
5 includes the United States Steel mills in Lorain, the
6 number four mill where the small diameter seamless is
7 made, in Fairfield, Alabama, as well as the mill in
8 Ambridge, referred to as Koppel Steel.

9 The seamless pipe industry today is in great
10 health. I have not seen an OCTG market and more
11 specifically, the seamless pipe market perform this
12 well since in the late 1970s. Even right now, there
13 is a heavy global demand for oil and prices are
14 extremely high. It is common knowledge that the price
15 of oil and natural gas has skyrocketed during the last
16 five years. This, in turn, has led in a dramatic
17 growth in the domestic rig count and seamless steel
18 pipe consumption. That translates into higher demand,
19 higher prices, and higher profits for the United
20 States steel pipe producers.

21 The two mills here today, U.S. Steel and
22 Koppel, each generate small diameter line pipe from
23 the same location as they produce their downhole
24 tubing, or OCTG, except the number four mill in Lorain
25 and Koppel at its primary location. And this is

1 important because they are the only two significant
2 producers of seamless small diameter pipe and there
3 has been tremendous pressure on them to dedicate
4 production capacity to downhole tubing.

5 Let me offer the following figures to
6 substantiate this point. The domestic drilling rig
7 count is currently at 1,543 rigs, and that was last
8 week, the end of last week. This is an increase of
9 nearly 150 percent of the 625 total rigs drilling in
10 1999. But not only has the rig count increased by
11 over 900 rigs, but those rigs now running are
12 significantly more efficient than those in past years.
13 Due to improved drill rig performance and drill bit
14 technology, along with other advancements, the same
15 number of rigs today will consume close to 30 percent
16 more pipe than the same number of rigs in the years
17 past.

18 Now, in addition to this, consider that
19 there are far fewer dry holes than there were in years
20 past. This is due to better seismic data, horizontal
21 drilling, even the facts that six dollar per MCF gas
22 and \$50 plus per barrel of oil makes for -- that makes
23 for more hydrocarbon findings to be commercial. What
24 this means --

25 MR. GURLEY: Could you stop one second?

1 MR. ALLEN: Sure.

2 MR. GURLEY: Cell phone check.

3 CHAIRMAN KOPLAN: That was a good try.

4 (Laughter.)

5 MR. ALLEN: Anyway, there's more hydrocarbon
6 findings today are commercial due to the price of gas
7 than once was. What this means is that there is a
8 huge demand for oil country tubular goods and seamless
9 pipe and I don't see it letting up -- a let up in
10 sight.

11 The constrains I'd like to address -- I'd
12 like to now address the issue of capacity constraints.
13 The source of steel available to U.S. Steel and Koppel
14 is limited in any given period --

15 CHAIRMAN KOPLAN: Excuse me one second.

16 That's not the microphone you were using, is it?
17 Yours didn't do that, so why don't you switch with him
18 and see if that helps. It's worth a shot. Try that.

19 MR. ALLEN: Okay. We'll go from this one.
20 The source of steel available to U.S. Steel and Koppel
21 has been limited in any given period. For example,
22 U.S. Steel has a finite supply of rounds to allocate
23 to their production. I heard it said earlier that
24 that wasn't the case anymore, that it was a perfect
25 storm that took place. Today, U.S. Steel and V&M Star

1 both have their distributors, their authorized
2 distributors on allocation, which means they can't get
3 past a certain amount of tonnage of pipe. So when I
4 speak of restraints, that's what is drawing that
5 comment.

6 OCTG in the form of downhole tubing and line
7 pipe are made on the same equipment, based on my
8 experience in dealing with domestic steel companies.
9 When there is the opportunity to produce OCTG and
10 obtain higher profits, they will do so. This explains
11 why neither U.S. Steel or Koppel are producing nearly
12 as much seamless line pipe as the demand might
13 indicate is required. This, also, explains why their
14 distributors have likely been put on allocation.

15 U.S. seamless pipe producers have many big
16 advantages in the market. They are closer to the
17 customer and they are all on the approved
18 manufacturing list of the major oil companies.
19 Foreign producers from the countries in question would
20 take years to gain approval from the major oil
21 companies here in the United States. The middle mills
22 I represent are not on any of the important major oil
23 company approved manufacturing list.

24 Lead times are another big advantage for
25 U.S. producers. Lead times from Romanian or the Czech

1 Republic can be three to six months. In contrast,
2 U.S. Steel cycles all its products only 30 days and
3 they can deliver any time during the following month
4 after that cycles is done. This short lead time is a
5 big incentive for distributors.

6 The witnesses you heard from today are all
7 U.S. Steel distributors -- or not all of them, but the
8 ones, Red Man and Dixie and Sooner. It is very
9 difficult to become a U.S. Steel distributor. There's
10 a lot of prestige in gaining this status and it is an
11 exclusive club. U.S. Steel gives them a lot of
12 incentive to sell their pipe and nobody else's. In
13 fact, U.S. Steel does not manually sell directly to
14 the energy companies. They only sell to distributors.
15 It is no wonder these people in here are so loyal to
16 U.S. Steel. I truly believe that U.S. Steel would not
17 react well if any of their distributors showed up on
18 our side of the room. That is why I'm a bit lonely
19 here today, myself.

20 In conclusion, the energy prices, they drive
21 the pipe and tube market. Nobody I know is
22 pessimistic about the oil and gas market or, for that
23 matter, for the pipe market. Imports have played an
24 important role in seamless pipe market in this
25 country. They are needed in both up and down markets.

1 Small distributors, who do not have direct access to
2 U.S. Steel or Koppel have relatively small independent
3 customers, who require seamless line pipe, and their
4 access to the product in question is vital to the
5 long-term health of the domestic energy industry. And
6 I would be happy to answer any questions you might
7 have.

8 CHAIRMAN KOPLAN: Thank you.

9 MR. GURLEY: Thank you, George. We'll now
10 hear from Mr. John Reilly.

11 MR. REILLY: Good afternoon, Mr. Chairman
12 and members of the Commission. I'm John Reilly of
13 Nathan Associates, appearing on behalf of Mittal Steel
14 Ostrava, Mittal Steel Roman, and Mittal Steel South
15 Africa.

16 The publicly available data and the BPI data
17 collected by the Commission belie any notion either
18 that the domestic industry is vulnerable to material
19 injury or that removal of the antidumping orders on
20 small diameter pipes would lead to an injurious volume
21 of imports from the subject countries. I'll begin the
22 assessment of vulnerability with some myth busting,
23 specifically the myth that there is a substantial
24 unused domestic capability to produce small diameter
25 pipes and tubes.

1 Very little of the small diameter pipe data
2 collected by the Commission is publicly available.
3 However, aggregated financial and statistical
4 information published by U.S. Steel and the NS Group
5 do provide reasonable approximations of both the trend
6 of financial performance and the state of the market,
7 which are directly pertinent to capacity utilization.

8 U.S. Steel, the dominant U.S. producer of
9 small diameter seamless pipe only tripled its steel
10 tubular segment sales from \$573 million in 2003, to
11 \$1.6 billion in 2005. Over the same period, U.S.
12 Steel's average per ton tubular segment price more
13 than doubled, rising from \$630 to \$1,326. The sharp
14 increases began in 2004, when tubular segment sales
15 rose to \$940 million and the average price reached
16 nearly \$1,100 per ton. U.S. Steel's tubular shipment
17 volume increased by 24 percent between 2003 and 2004,
18 from 882,000 tons to 1.1 million tons, while the
19 average per ton price rose by 64 percent. Between
20 2004 and 2005, the average price for U.S. Steel
21 increased by an additional 22 percent. However, U.S.
22 Steel's tubular product shipment volume rose by only
23 six percent, to 1.2 million tons. In fact, the
24 shipment volume recorded for 2005 was essentially the
25 same as the 1.2 million tons recorded for 2000, when

1 the average price was only some \$642 per ton. The
2 lack of a significant volume response to the very
3 highly profitable 2005 prices suggests strongly that
4 U.S. Steel was unable to put significantly more
5 tubular product tonnage out the plant door. At
6 prevailing 2005 prices, it would have been irrational
7 to choose not to increase production where such a
8 capability to exist. In short, the idea that there's
9 substantial unused capacity just does not compute.

10 The NS Group does publish statistical
11 information specific to Koppel's seamless tube
12 operations. The track begins with 2001, because the
13 NS Group changed fiscal years beginning and ending
14 dates effective January 1, 2001. So, prior periods
15 data aren't directly comparable. Data for Koppel's
16 seamless operations paint essentially the same picture
17 as for U.S. Steel's tubular segment. Between 2003 and
18 2005, Koppel's seamless tube sales increased 2.7
19 times, from 142 million to 378 million, while the
20 average seamless price roughly doubled, from \$816 to
21 \$1,610 per ton. As is the case with U.S. Steel, the
22 sharp price and revenue increase began in 2004, when
23 seamless revenue rose by 88 percent, to \$267 million
24 and the average price rose by 40 percent, to \$1,144
25 per ton.

1 Responding to strong demand, Koppel's
2 seamless tube shipments increased by 35 percent
3 between 2003 and 2004, from 174,000 tons to 234, 000
4 tons. In its annual report, the NS Group reported
5 with some pride that Koppel's seamless tube facilities
6 had operated at 98 percent of capacity for the year.
7 It is, therefore, no wonder that Koppel's shipments
8 did not increase appreciably in 2005, despite a 41
9 percent year over year average price increase. In
10 sum, a proper interpretation of the available data
11 indicates that there is neither any overhang of unused
12 small diameter seamless pipe capacity, nor any
13 vulnerability to material injury related thereto.

14 The domestic producers have asserted that
15 the orders permitted the domestic industry to
16 immediately return to profitable operations and have
17 kept that veritable flood of small diameter pipe
18 imports. This is myth number two. If one compares
19 the U.S. industry's performance in 2000 and 2001, the
20 periods immediately after the orders were put in
21 place, the performance during the original POI, one
22 finds a very interesting result. U.S. producer's
23 dollar sales, shipment volumes, average prices, market
24 shares, and employment indicators all declined.
25 Operating profits did improve, but not because of the

1 orders. Rather, average operating costs declined,
2 more than average prices declined. In short, since
3 the orders have no demonstrable beneficial effect on
4 the domestic industry, it cannot be demonstrated the
5 industry would be vulnerable to their termination.

6 Very strong demand driven by high energy
7 prices during 2004 and 2005 has boosted U.S. producers
8 profitability to unheard of heights. Aggregated
9 public financial information for both U.S. Steel and
10 the NS Group are reasonably representative of general
11 trends applicable to seamless small diameter standard
12 and line pipe. In 2004, U.S. Steel's tubular segment
13 results soared from a 2003 loss of \$25 million, or -4
14 percent of sales, to an operating profit of \$197
15 million, or 21 percent of sales. For 2005, the
16 operating profit fell a little short of tripling, to
17 some \$528 million or 34 percent of sales. By way of
18 comparison, Microsoft reported an operating profit
19 margin for the fiscal year ending June 30, 2005 of
20 some 37 percent. For the entire 2000 to 2005 period,
21 U.S. Steel's tubular segment produced a cumulative
22 operating profit of \$836 million, which is equal to
23 some 17 percent of total sales for the period.

24 NS Group does not report separate financial
25 results for Koppel's seamless tube operations.

1 Consolidated results, however, sharp earnings gains in
2 both 2004 and 2005. In 2004, operating earnings
3 turned around sharply from a loss of \$18 million or -7
4 percent of sales, to a profit of \$79 million or 17
5 percent of sales. For 2005, the NS Group's operating
6 profit jumped by 76 percent, to a record \$139 million.
7 Despite losses in 2001 to 2003, the 2004-05 turnaround
8 brought the NS Group's cumulative 2001 to 2005
9 operating profit to \$116 million or 17 percent of
10 total sales for the entire period. Certainly, the
11 U.S. Steel and NS Group financial performance during
12 the past two years provides no basis for finding of
13 vulnerability.

14 I'd now like to take a moment to comment on
15 the financial analysis that was provided by Charles
16 River Associates, specifically their analysis of the
17 performance of the domestic industry over the period
18 from 1997 through 2005. First of all, the calculation
19 of the required rate of return on investment that was
20 provided by CRA constitutes a big of a black box.
21 They didn't provide the details of how the numbers
22 were calculated. So, it's difficult, if not
23 impossible, to assess them. However, as noted this
24 morning in Commissioner Lane's question, capital
25 structure is relevant.

1 In the capital structure of the two publicly
2 reporting companies, NS Group and U.S. Steel are quite
3 different. NS Group is virtually debt free. U.S.
4 Steel does have significant debt, but that doesn't
5 mean excessive debt. And debt is cheaper than equity
6 and the judicious use of debt can reduce your capital
7 costs. And it's not apparent to us that this
8 difference in capital structure between the two
9 companies or any part of capital structure was taken
10 into account in the calculation of the required rate
11 of return.

12 Also, for 2002 to 2005, if you take that
13 period in its entirety, the six year -- the interim
14 2005, that five-and-three-quarter-year period, the
15 domestic industry, by CRA's calculations, exceeded its
16 cost of capital by a substantial margin, and we detail
17 that in our pre-hearing brief. Moreover, if you drop
18 one year, 1999, when they showed this morning that
19 subject imports actually declined sharply relative to
20 the 1997-1998 problem, if you drop that one year, the
21 domestic industry covers its cost of capital,
22 according to their calculations.

23 And, finally, even if you take their
24 calculations for the year 1997 to 2005, as given, you
25 cannot conclude that they demonstrate that the

1 domestic industry has failed to cover its cost of
2 capital. Dr. Kaplan noted this morning that he was, I
3 think, in answering questions, that the domestic
4 industry didn't miss by much covering its cost of
5 capital for the 1997 to 2005 period; well and good.
6 The problem is the band of error around their estimate
7 of the cost of capital exceeds by any reasonable
8 measure the degree to which they fell short.
9 Therefore, the result cannot be used to demonstrate
10 the domestic industry has failed to cover its cost of
11 capital.

12 Finally, Commissioner Pearson asked the
13 question of whether calculations relative to an
14 industry that was quite different in structure during
15 the 1999 period are relevant. And my conclusion is,
16 no, they're not relevant; that if you're going to
17 calculate whether the domestic industry has covered
18 its cost of capital, you should take it as it's
19 currently constituted and that would be U.S. Steel, NS
20 Group, and so forth, but not include in that
21 calculation entities that no longer exist.

22 Now back to my script. High energy prices
23 are driving demand for OCTG in the subject's small
24 diameter products. Although OCTG has been the
25 principle beneficiary of high energy prices and

1 related exploration and development, the small
2 diameter products that are subject to this
3 investigation have also benefitted from related
4 demand, for collecting lines, and the capital
5 projects. Strong OCTG demand has also provided a
6 significant indirect pricing benefit to the small
7 diameter products. With total seamless capacity and
8 relatively short supply, producers require very high
9 subject product price to make them willing to allocate
10 capacity away from seamless OCTG products. In fact,
11 despite the very high subject product prices, total
12 U.S. producers' seamless standard and line pipe
13 shipments, as reported by AISI, actually declined in
14 2005 by 1.3 percent. Shipments of seamless OCTG, in
15 contrast, increased by 7.1 percent during the year.
16 These data indicate the producers allocated capacity
17 away from seamless standard and line pipe during the
18 year, in order to produce even more profitable OCTG.

19 Similarly, U.S. imports of subject small
20 diameter pipes and tubes, as measured by the adjusted
21 Census data, declined by nine percent, between interim
22 2004 and interim 2005, from 175,500 tons to 98,200
23 tons, and this is despite sky high U.S. prices. This
24 suggests that foreign producers have, as well,
25 allocated scarce capacity away from the subject's

1 small diameter products, in favor of any more
2 profitable alternatives.

3 High energy prices, the drivers of high
4 seamless tube prices, are expected to continue to
5 prevail for the foreseeable future. Note that the
6 seamless boom took off in 2004 and the average price
7 of imported crude was \$35.99 a barrel. In its base
8 case or referenced case forecast, the Energy
9 Information Administration expects the price to
10 average \$43.99 per barrel or higher through 2010 and
11 more than \$46 per barrel through 2009. The average
12 lower 48 well head price of natural gas was \$5.49 per
13 thousand cubic feet average for 2004. In its base
14 case, the EIA expects the average price to remain
15 above the 2004 level through 2008 and within three
16 percent of the 2004 level through 2009. In sum, the
17 market for seamless tubular products, including the
18 subject products, should enjoy very strong demand and
19 high prices for the foreseeable future.

20 Petitioners have asserted that the removal
21 of the orders will cause the producers in the subject
22 countries to significantly increase their exports to
23 the United States. Recent history, however,
24 contradicts these assertions. Were the producers in
25 the subject countries sitting on significant excess

1 capacity, attractive U.S. prices for OCTG and other
2 non-subject seamless products should have caused them
3 to substantially increase their exports of these
4 products to the United States through 2005. Imports
5 of seamless OCTG from the subject countries did
6 increase between 2003 and 2004, but actually declined
7 during 2005. Moreover, imports of seamless OCTG from
8 the subject countries remain below the 2001 peak of
9 131,000 tons, despite much higher 2004 and 2005 U.S.
10 prices. Imports of all non-OCTG seamless pipes and
11 tubes did not increase appreciably in 2004 and 2005
12 and remain below the 2002 peak of 139,000 tons in both
13 years. This behavior is clearly not typical of what
14 one would expect for these countries to have
15 significant excess capacity and be motivated to push
16 product into the U.S. market.

17 In contrast, imports of seamless OCTG from
18 non-subject countries increased sharply in 2004 and
19 again in 2005. Imports of all non-OCTG seamless from
20 the subject countries also increased by approximately
21 30 percent between 2003 and 2004 and by an additional
22 five percent during 2005. These increases were
23 certainly not injurious to the domestic industry. In
24 sum, the lack of response by producers in the subject
25 countries to historically high U.S. prices for both

1 seamless OCTG and non-OCTG seamless products suggest
2 that removal of the orders would be most unlikely to
3 produce a flood of imports.

4 Our pre-hearing brief discusses in detail
5 the situation and outlook in the Czech Republic,
6 Romania, and South Africa. The common pertinent
7 elements in the three countries include high current
8 and projected capacity utilization, strong well-
9 established non-U.S. markets, a low priority on the
10 U.S. market relative to established non-U.S. markets,
11 and the low projected volume of exports to the United
12 States, assuming that the orders are terminated.
13 These characteristics, combined with the recent benign
14 behavior in the U.S. market for seamless OCTG and all
15 non-OCTG seamless products, in the face of sharply
16 increasing prices, makes it most unlikely that removal
17 of the orders against the three countries would result
18 in an injurious volume of imports.

19 Questionnaire information about Japan is
20 limited. However, published data for seamless pipes
21 and tubes indicate that Japanese producers would be
22 unlikely to significantly increase exports of subject
23 small diameter products to the United States were
24 orders to be lifted. Total Japanese product of
25 seamless pipes and tubes reached a four-year peak of

1 2.2 million short tons in 2005. Moreover, 1.4 million
2 tons, or 64 percent of their total, amounted to high
3 value specialty steel products. Between 2002 and
4 2005, Japanese production of specialty steel seamless
5 increased by 28 percent, while production of less
6 valuable ordinary steel seamless products grew by some
7 four percent. In fact, production of ordinary steel
8 seamless products actually declined by 32,000 tons
9 between 2004 and 2005, despite historically high oil
10 prices, while production of specialty steel products
11 increased by 174,000 tons. This suggests the Japanese
12 producers have followed rational strategy of
13 sacrificing ordinary steel seamless production, in
14 order to increase production of substantially more
15 valuable specialty steel seamless products.

16 Now, Japanese exports of ordinary steel
17 seamless products declined by two percent between 2004
18 and 2005, and this was despite a total yen value
19 increase of 50 percent and an yen-based average unit
20 value increase of a hefty 53 percent. This export
21 decline, despite sharply higher prices, coupled with a
22 14 percent increase in specialty steel seamless
23 production during the same period reached to the
24 logical conclusion that the Japanese producers are
25 making seamless products at capacity and are

1 allocating scarce production resources from ordinary
2 steel products to much higher value specialty steel
3 products, in order to maximize their profits.

4 Counsel for Petitioners has advocated the
5 adverse inferences be made because of the lack of
6 Japanese response to Commission questionnaires. The
7 preceding data, however, suggests a different
8 inference; that is, Japanese producers that did not
9 respond to the questionnaire decided to forego the not
10 inconsiderable expense of hiring lawyers and
11 consultants to vet questionnaire responses. Why
12 should they, since they should have no interest in
13 producing the subject products for exports to the
14 United States at the expense of much higher value and
15 more profitable products.

16 To sum up, the original orders did not
17 improve the fortunes of the domestic industry.
18 Nevertheless, unprecedented demand driven by high
19 energy prices and limited worldwide supply have
20 permitted domestic producers to increase their profits
21 to truly Microsoftian proportions. Energy prices are
22 expected to remain above 2004 levels for the
23 foreseeable futures, thus assuring small diameter
24 seamless tube price -- high small diameter seamless
25 tube prices and continue Microsoftian profitability.

1 In conclusion, there's a lyric from a 1980s
2 popular song that dead on describes this case in a
3 nutshell. It goes like this: the future is so
4 bright, I've got to wear shades. Thank you.

5 MS. NOONAN: Thank you, Mr. Reilly, for that
6 illuminating talk. Now, we are turning to the
7 Romania- specific phase of our presentation. Mr.
8 Daneo will discuss the market conditions in Romania,
9 in general, as well as Silcotub's situation in detail.
10 I will follow with some short comments on cumulation.
11 Mr. Daneo?

12 MR. DANEEO: Thank you. Good afternoon,
13 members of the Commission. Thank you for giving me
14 the opportunity of speaking and please excuse me if my
15 English will be not so plain, but I'm from Italy. My
16 name is Alessandro Daneo and since July 2004 have been
17 the commercial and planning manager of Silcotub. I
18 have a degree in managerial engineering at the
19 Politecnico di Torino and have been with Tenaris for
20 the past six years. I became familiar with Silcotub
21 in the fall of 2003, when Tenaris started looking for
22 potential acquisition in the eastern part of Europe
23 and Silcotub was on target. Once Tenaris acquired
24 Silcotub, I moved to Romania and that's where I live
25 and work.

1 In commercial planning, we have different
2 issues. Some of them are, for example, monitoring the
3 profitability of the sales. We provide sales by
4 segment, plant type, market type, in order to optimize
5 the profitability of sales. We, also, pay extreme
6 attention to the profitability of the whole company in
7 total, in terms of net profit, the EBITDA margin,
8 asset and working capital evolution. That's why I've
9 become extremely familiar with the Silcotub strategy,
10 profitability strategy plan and that's why I'm here to
11 explain it to you.

12 I would like to address you the following
13 six main points. First, I want to address the
14 political and all the changes that have occurred and
15 are expected to occur in Romania, such as the Romania
16 parliamentary in the E.U. Community. These changes
17 had and are expected to have significant benefits for
18 Romania and its economy.

19 Second, there has been a significant change
20 in the status of Silcotub since the original
21 investigation, due to the fact that Silcotub has been
22 initially privatized in 2000 and now acquired by
23 Tenaris in 2004 and new management came. Third,
24 capacity and price issue did not make likely that we
25 will export large volumes of line pipe to the United

1 States, if the order is revoked. Fourth,
2 certification requirements by U.S. purchasers has
3 limited our ability to compete in the U.S. market.
4 Fifth, there are no significant trade barriers in
5 other countries to export our small-diameter products.
6 And my sixth point is the exports of China have not
7 impacted at all our business in a negative way.

8 I will begin with my first point. I'm sure
9 you already know, Romania has undergone an enormous
10 change in its political scenario, since the order on
11 small diameter pipe was put in place in 2000.
12 Specifically, Romania is now a member of NATO and is
13 expecting after a visit of Condoleeza Rice to have
14 U.S. troops stationed there, once the bases in Germany
15 will be reduced in the near future. Romania is on the
16 verge of becoming a member of the E.U. Community in
17 January 2007, a few months. The interest of Romania
18 can only strengthen demand for line pipe and non-
19 subject pipe product they will produce, both in our
20 home market and in the European market. Already, our
21 home market and the European market represents almost
22 two-thirds of our sales. Our home market continues to
23 be strong and it is an important market for all of our
24 pipe products, including our extremely profitable OCTG
25 products.

1 Second, there has been a significant change
2 in the status of Silcotub since the original
3 investigation. Silcotub was privatized in 2000 and
4 since December of 2004 has been controlled by Tenaris.
5 Other Romanian pipe producers are also now owned by
6 private investors. Under private ownership,
7 profitability is the goal, not arbitrary production
8 targets that may have existed when the company was
9 state-owned, no more buccaneer approach to the
10 business. We try to be rational.

11 Speaking for Silcotub, our new ownership
12 change the way we do business in our overall strategy.
13 Now, our strategy is mainly focused on two targets,
14 like many of the other oil and pipe companies. We
15 refocused our production on making higher added value
16 product, to better increase the prices, to better the
17 quality standards of our product, and to increase our
18 presence in our original automotive market and oil and
19 gas market regional market. Today, our marketing
20 resource develop local and regional markets, I repeat
21 it. To be clear, the higher value added product are
22 not small-diameter line pipe as defined in the duty
23 order.

24 In the short time since Tenaris has owned
25 Silcotub, we have already started fulfilling our goals

1 and directing the company in this direction. We're
2 becoming a regional producer for a regional market.
3 Specifically, since 2004, we have increased our
4 regional products by more than doubling the sales of
5 our pipe products in Romania, the E.U., and the nearby
6 countries. At the same time, we significantly
7 decreased our shipment of line pipe to the United
8 States. The U.S. market is not where we are focusing
9 our attention and we are not even, if the antidumping
10 duty were invoked.

11 A part of our original strategy, we have
12 also entered in some long-term supply agreements,
13 commitments, that covers almost half of our capacity.
14 In our home market, this permits us to produce and
15 sell OCTG products for the local regional petroleum
16 industry, that sees Romania becoming a dominating
17 position in the south of Europe downstream petroleum
18 industry. We are entering with our cold drawn pipes
19 in the regional automotive industry, many Western
20 companies are relocating in Eastern Europe their
21 facilities. We, also, have a long-term contract to
22 supply seamless hot-rolled pipes to our affiliate in
23 Italy, Dalmine. That use those hot-rolled to produce
24 higher added value product, mainly cylinders, that are
25 non-subject merchandise. Based on our long-term

1 supply agreements, we have already invested almost one
2 million dollars in Silcotub for building up a "green
3 pipe" exit directly from the rolling mill to be able
4 to dispatch more easily the hot-rolled for Dalmine.
5 All these long-term commitments will reduce the
6 capacity available to produce line pipe and small
7 diameters.

8 Our profitability and the business strategy
9 is personally already apparent. I can ask the
10 Commission to read the article attached to our pre-
11 hearing brief, which show the profitability of
12 Silcotub and other pipe producers in Romania.

13 Third point, capacity and price issue do not
14 make it likely that we will export large volume of
15 small diameter line pipe in the United States if the
16 order is revoked. Regarding capacity, the reality is
17 that capacity fluctuates every year. Whatever the
18 maximum capacity is, it is theoretical -- and
19 according to the present product mix and productivity
20 of the lines of the workers, we are currently
21 operating full capacity. We are running three shifts
22 a day, five days a week. Our production is going
23 directly to the customers and one of our tasks is to
24 reduce the working capital and inventories, because,
25 as in any company, they represent costs. I ask the

1 Commission to keep actual capacity volumes in mind
2 when they consider the capacity figures on the record.

3 Regarding the price issue, I must be frank
4 with you. The U.S. market for line pipe is simply not
5 that attractive. Our regional European market for
6 line pipe shows price levels comparable or higher than
7 the U.S. prices, not to mention the other products. A
8 recent press release shows the average price of
9 Tenaris -- these are general figures -- shows price
10 around \$400-\$500 U.S. higher than the price for line
11 pipe in the U.S. So, Tenaris's average price is much
12 higher than the price of line pipe. Finally, selling
13 to our profitable regional market is in line with our
14 strategic plan to be a regional producer for a
15 regional growing market in higher value added product.

16 My fourth point regards the certification
17 requirements by U.S. purchasers that limit
18 substantially our ability to compete in the U.S.
19 market. Suppliers that requires to be certified, not
20 a trade like Tenaris. And Silcotub is not a certified
21 supplier for many of the clients of the U.S.
22 producers. We are not on many of the approved
23 manufacturing lists, while as far as I know and I
24 heard, the U.S. producers are on those lists.
25 Regionally, however, we sell in Europe to many

1 customers that have certified our line pipe and non-
2 line pipe products, and we are running many processes
3 to be certified regionally for OCTG and cold drawn
4 clients.

5 Fifth point, the trade barriers mentioned by
6 the staff report are not significant for our business.
7 The current E.U. investigation mentioned in the Staff
8 Report has not yet resulted in imposition of any
9 duties. We expect a final decision in this case for
10 mid of this year and even if we are subject to any
11 antidumping duties in this proceeding, the duties will
12 be lift once we will become a member of the EU in two
13 months at the beginning of next year. We are not
14 interested in the Brazilian or Mexican markets because
15 these markets are not our targeted regional market,
16 and we have affiliates already operating in this
17 region for this region. In fact, we have affiliates
18 that are not subject to the U.S. antidumping duty
19 order on seamless line pipe of small diameter. These
20 affiliates already are producing small diameter pipes,
21 and they are not substituting the quantities of small
22 diameter pipes expressly exported from Romania with
23 pipes coming from these countries for a very obvious
24 reason, that we have no reason to export line pipe of
25 small diameter when we can obtain more profits using

1 the production units for small diameter products on
2 other markets.

3 Sixth and last point is that the exports
4 from China are not impacting our business in a
5 negative way. I feel the need to make this point
6 because Petitioners claim in their pre-hearing brief
7 that the Chinese small diameter line pipe is taking
8 away a substantial portion of our market. This is not
9 true. And the demonstration is what happened here in
10 America, in North America, in 2004. The staff report
11 says that the U.S. imports from China accounted for
12 approximately 26 percent of non-subject countries in
13 2004. In the same year, U.S. imports from Romania
14 were also at their highest level since 2000. And,
15 yet, these two facts, unit values and U.S.
16 profitability were the highest since 2000. That means
17 that the U.S. market supported both exports from China
18 and from Romania. Chinese line pipe is presently not
19 entering in our domestic regional market, and we do
20 not foresee any future entries. And also in the EU
21 market, they have a very irrelevant portion of the
22 total imports.

23 Thank you. Please excuse me again for my
24 English, and I will be happy to answer to any
25 questions that you would have.

1 CHAIRMAN KOPLAN: Thank you, very much, for
2 your testimony.

3 MS. NOONAN: Good afternoon. My name is
4 Nancy Noonan from the law firm of Arent Fox. I will
5 be speaking to you about why we think the Commission
6 should not cumulate Romania with the other subject
7 countries in this proceeding. If the Commission
8 determines that imports from Romania are likely to
9 have no discernible adverse impact on the domestic
10 industry, the statute does not allow the Commission to
11 cumulate imports from Romania with imports from the
12 other subject countries. We believe that the evidence
13 on the record supports a finding that imports from
14 Romania are likely to have no discernible adverse
15 impact on the domestic industry.

16 Both the likely volume of imports from
17 Romania and the likely impact of those imports on the
18 domestic industry, if the order is revoked, indicate
19 that there will be no discernible adverse impact
20 within a reasonably foreseeable time. Regarding
21 likely volume of imports from Romania, evidence on the
22 record shows that during the original period of
23 investigation, imports from Romania were declining.
24 During the 2000 to 2005 sunset review period, imports
25 from Romania remained significantly lower than the

1 period of investigation peak in 1997. This will
2 continue, because Romania line pipe is being sold in
3 the home market or to non-U.S. export markets,
4 particularly the regional markets.

5 Imports from Romania have also consistently
6 accounted for a low percentage of U.S. consumption.
7 The record contains substantial evidence regarding
8 reduced production capacity in Romania, along with
9 current and projected high capacity utilization rates.
10 These facts make it highly unlikely that exports to
11 the United States from Romania would significantly
12 increase in volume in the event that the order against
13 Romania is revoked.

14 Regarding the likely impact of imports from
15 Romania on the domestic industry, we submit that
16 imports from Romania have had no impact and will
17 continue to have no impact on the domestic industry.
18 As you heard from Mr. Reilly, we do not believe that
19 any of the orders had a beneficial impact on the
20 domestic industry. This is particularly true with
21 respect to Romania, because Romania continued to have
22 a presence in the U.S. market during the entire sunset
23 review period at levels comparable to or higher than
24 the last year of the period of investigation and, yet,
25 in the past two years, the domestic industry saw

1 increased prices, increased shipment levels, and
2 increased profits. Since the domestic industry
3 experienced extraordinary profitability during the
4 sunset review period, despite the steady presence of
5 imports from Romania, such imports have had no adverse
6 impact on the U.S. industry. Imports from Romania
7 will continue to have no adverse impact on the
8 domestic industry, because the strong U.S. energy
9 market is expected to continue to drive demand for
10 line pipe in the reasonably future.

11 Finally, as Mr. Daneo discussed, where U.S.
12 customers require certification and the Romanian pipe
13 is not certified, there is no competition and,
14 therefore, there can be no discernible adverse impact.

15 Even if the Commission determines that
16 imports are not likely to have no discernible adverse
17 impact in the requirements for cumulation on that, we
18 ask the Commission to exercise its discretion not to
19 cumulate Romania based on other factors. These
20 factors include the low current and projected shipment
21 levels to the United States from Romania, prices of
22 Romanian small diameter pipe that have increased in
23 tandem with price increases of the U.S. producers,
24 production capacity in Romania has decreased while
25 capacity utilization is high and projected to get

1 higher, strong home and regional markets for Romanian
2 subject and non-subject pipe, and the private
3 ownership of subject pipe producers in Romania, who
4 now operate under profit maximizing principles. For
5 any and all of these reasons, we ask that the
6 Commission not cumulate Romania with the other subject
7 countries in this proceeding. Thank you.

8 CHAIRMAN KOPLAN: Thank you.

9 MR. GURLEY: That concludes our
10 presentation.

11 CHAIRMAN KOPLAN: Thank you, very much.
12 Thank you for your direct presentation. We'll begin
13 the questioning with Commissioner Lane.

14 COMMISSIONER LANE: Good afternoon. I'd
15 like to start with Mr. Gurley. On page 10 of your
16 pre-hearing brief, you state that in 2004, the Czech
17 Republic became a member of the European Union, which
18 then lifted trade restraints against its seamless pipe
19 exports. What European Country trade restraints
20 against steel line pipe from the Czech Republic were
21 in effect prior to 2004?

22 MR. GURLEY: I believe there was an order in
23 place, but the fact that you're asking that question
24 makes me one to think again. So, I'll have to address
25 that in the post-conference brief.

1 MS. NOONAN: Actually, Commissioner Lane, I
2 can add something to that. The staff report did have
3 a reference to an EU order against the Czech Republic,
4 so that's where we got that information from.

5 COMMISSIONER LANE: Okay. On page 12 of
6 your pre-hearing brief, you state that the increase in
7 2006 capacity utilization, assuming that the order is
8 terminated, reflects an increased in projected exports
9 to the United States. However, you conclude that
10 paragraph by saying that it is most unlikely that the
11 Romanian producers would increase their exports to the
12 United States in the reasonably foreseeable future.
13 Those could be interpreted as inconsistent statements.
14 Clearly, based upon the projections, there would be an
15 increase in exports to the United States. Do you mean
16 to say that the Romanian producers would not likely
17 increase their exports to the United States more than
18 they have predicted?

19 MR. REILLY: This is John Reilly,
20 Commissioner Lane. That sentence was clearly poorly
21 written. Basically, what we're trying to indicate is
22 that the increase in exports to the United States
23 projected, assuming that the orders are lifted, is
24 modest and that exports to the United States would not
25 increase beyond that modest level.

1 COMMISSIONER LANE: Okay. You, also,
2 mentioned the level of drilling activity as measured
3 by the drilling recounts as an indication of
4 continuing strong demand for steel line pipe. In your
5 pre-hearing brief, you mentioned that the Baker Hughes
6 rig count data show 1,473 drilling rigs in the United
7 States in January 2006 and 1,565 in the rest of the
8 world. As a measure of drilling activity in Europe,
9 can you tell me out of those 1,565 rigs, how many were
10 in operation in Europe?

11 MR. REILLY: That information, I believe, is
12 available. We'll provide it in our post-hearing
13 brief.

14 COMMISSIONER LANE: Okay. Similarly, out of
15 the 1,565 drilling rigs active in places other than
16 the United States, how many of those were in operation
17 in the Middle East?

18 MR. REILLY: I believe that information is
19 also available.

20 COMMISSIONER LANE: Could you provide for
21 the record the Baker Hughes worldwide rig count
22 monthly report that shows the rig counts by producing
23 regions by month?

24 MR. REILLY: Yes, we will provide that.

25 COMMISSIONER LANE: Okay, thank you.

1 MR. REILLY: There is one thing I would like
2 to note about Romania, however. Romania is the
3 largest oil producing region in southeastern Europe
4 and there are some 7,000 producing rigs in Romania and
5 a significant number of those rigs will require
6 refurbishment. And that is going to require a
7 significant portion of domestic Romanian output. I
8 just wanted to get that on the record.

9 COMMISSIONER LANE: So, the 1,565 drilling
10 rig count in the world is not correct?

11 MR. REILLY: Pardon me? I'm sorry, I should
12 have said producing wells that are going to require
13 refurbishment.

14 COMMISSIONER LANE: Okay. Seven thousand
15 drilling rigs and we've got 1,500 total. That's sort
16 of inconsistent. Okay, thank you.

17 MR. DANEO: If I may add one additional
18 comment --

19 COMMISSIONER LANE: Yes.

20 MR. DANEO: -- regarding rigs in Romania.
21 Romania is facing a big evolution, in terms of oil and
22 gas market, because the only main player, Petrom,
23 Romania has been acquired by a multinational -- it is
24 planning to revamp a lot of the present drills, in
25 order to bring back them to profitability. So, there

1 is an extremely large plan of investment from Petrom
2 in Romania to revamp wells. We can bring in separate
3 momentary figures are restricted, but it's extreme
4 interest in the evolution of the market at the moment.

5 COMMISSIONER LANE: Thank you. Now, in your
6 opening remarks, one of you were talking about
7 allocations. Is there specific evidence in the record
8 already that people have been placed on allocations
9 because they couldn't get the product?

10 MR. GURLEY: I don't believe there is
11 specific evidence in the record right now, other than
12 the testimony from my colleague here, but he can
13 expand on that.

14 COMMISSIONER LANE: Okay. Mr. Allen, could
15 you be specific, because I think you're the first
16 person that has discussed allocations.

17 MR. ALLEN: Allocation is an important word.
18 It tells you a lot. U.S. Steel, in its domestic OCTG
19 industry, has five distributors. The two here today,
20 Red Man and Sooner, are certainly very, very good
21 distributors of U.S. Steel. Then, there are three
22 others. I would consider that the two here today,
23 they are some of the guys in the valley. But what
24 they do is they order pipe every month from U.S.
25 Steel. They are on allocation and the distributors of

1 V&M Star, also, are, I'll bring that up, and meaning
2 that they cannot get at times all -- on a monthly
3 basis, they cannot get past a certain amount of
4 tonnage of pipe, even if their customer base requires
5 it. That tells a lot, in and of itself.

6 COMMISSIONER LANE: Okay, thank you. Mr.
7 Reilly, I think, or maybe Mr. Gurley, talking about
8 the profitability of Microsoft. Maybe, we should put
9 it in perspective. Could you put in the record,
10 perhaps, how profitable they've been in the last, say,
11 over a 10-year period, as compared to the line pipe
12 industry?

13 MR. GURLEY: We could, but we wouldn't want
14 to.

15 COMMISSIONER LANE: Well, you know, for
16 somebody, who sort of likes to look at everything in
17 perspective, maybe it would help me analyze that
18 statement, if I saw what Microsoft had done during the
19 same period that we have evidence on the line pipe
20 industry.

21 MR. GURLEY: We'll do that.

22 COMMISSIONER LANE: Okay, thank you. Now,
23 Mr. Reilly, as an economist, you heard this testimony
24 this morning that the problem that this industry could
25 face, if these orders came off, is that there would be

1 an oversupply of the product and that an oversupply of
2 the product, even if demand remains high and even if
3 the gas industry remains very strong, that an
4 oversupply is going to adversely effect the industry
5 by depressing prices. Now, from a pure economic
6 standpoint, how would you address that?

7 MR. REILLY: Well, if you look at the data
8 that I discussed during my presentation, there's
9 nothing that really suggest that an oversupply would
10 occur, in the even that the orders were removed.
11 First of all, the -- from the subject countries.
12 First of all, the three European countries -- I'm
13 sorry, the two European producing countries and South
14 Africa are operating a high rates of capacity
15 utilization, have priorities directed at other markets
16 and are highly profitable. So, there is really
17 nothing that would motivate them to attempt to enter
18 the U.S. market in such a way that would drive prices
19 down. That is what I would call a self-defeating
20 strategy. So, there's no evidence on the record that
21 indicates that from those sources, an oversupply
22 situation would be probable.

23 As regards to Japan and realizing that the
24 information collected by the Commission about Japan is
25 limited, publicly available information also tends to

1 belie any notion that there would be a substantial
2 oversupply of product from Japan. The Japanese
3 producers, based on the product mix changes, have
4 clearly been moving into high value specialty steel
5 products and specialty steel products are very high in
6 value, and that's a sensible strategy for a country
7 that is a high cost producer. They're selling on the
8 basis of value and the high technology and quality of
9 what they produce. And they're selling those into --
10 principally into non-U.S. markets, where they're well-
11 established.

12 Their ability to export the more common
13 carbon steel or ordinary steel small diameter pipe to
14 the United States appears to be quite limited, because
15 they're reducing their exports of carbon steel
16 seamless products and their production of carbon steel
17 seamless products, despite enormous average value
18 increases, and that says they're foregoing production
19 of these goods, because they can make more money
20 producing a different mix of products. So, why do
21 they want to export small diameter carbon seamless
22 products to the United States market? It doesn't make
23 any sense.

24 COMMISSIONER LANE: Okay, thank you, Mr.
25 Reilly. Thank you, Mr. Chairman.

1 CHAIRMAN KOPLAN: Thank you. Commissioner
2 Pearson?

3 COMMISSIONER PEARSON: Thank you, Mr.
4 Chairman, and permit me to extend my greeting, also,
5 to the afternoon panel. Mr. Reilly, let me begin just
6 with a technical question for you. On page eight or
7 slide eight of your presentation, you had one line
8 listing CASSLP shipments for 2004 and 2005, and
9 another line listing pressure pipe for those same
10 years. As you have compiled this data, is pressure
11 pipe to be seen as a subset of CASSLP or something in
12 addition to?

13 MR. REILLY: Well, the reason we put
14 pressure pipe on a separate line is that pressure pipe
15 is a high value specialty product, as far as we're
16 concerned, which is different from the more standard
17 carbon steel standard pipe and line pipe. So, we
18 weren't attempting to do a like product analysis and
19 perhaps we should have footnoted the slide to show
20 that. But, it's the more standard or the more common
21 carbon steel product, where declining shipments -- a
22 shipment decline has showed up.

23 COMMISSIONER PEARSON: Okay. Well, given
24 the trouble I got myself into this morning, I will
25 tread likely here. But, my understanding is that as

1 the Commission is using the acronym CASSLP, that that
2 includes pressure pipe.

3 MR. REILLY: Right, it does.

4 COMMISSIONER PEARSON: Okay. And so --

5 MR. REILLY: That's why I say it was sloppy
6 on our part. We should have footnoted the slide.

7 COMMISSIONER PEARSON: Okay. So the answer
8 to the original question was that, indeed, pressure
9 pipe, as listed here, is a subset of CASSLP.

10 MR. REILLY: Right.

11 COMMISSIONER PEARSON: Thank you. That's
12 what I was trying to understand. The Petitioners
13 argue that an increase in dumped imports following
14 revocation of the orders would be more likely now than
15 it had been in the original investigation, in part
16 because multinationals play a bigger role in the
17 industry now than was the case before. How do you
18 respond to that?

19 MR. GURLEY: I'll take the first stab at
20 that and then I'll pass it to my colleagues. From the
21 first part, I think you understood the testimony of
22 Mr. Daneo is that Tenaris currently has production
23 facilities making small diameter seamless pipe in
24 Canada and Mexico. Neither of those countries are
25 subject to antidumping duty orders and to my

1 knowledge, the Tenaris group has exported zero, zero
2 from those facilities. So, they're not waiting for
3 the revocation from Romania to suddenly gear up. If
4 they wanted to ship to the United States, they would
5 have already done so.

6 With respect to Mittal, just a couple of
7 footnotes, is that while they are under the name
8 Mittal Steel now, you're looking at like the guy, who
9 was hired two weeks ago, who is the first hired to
10 handle two products. They don't exactly have a large
11 mammoth sales staff.

12 Secondly, for historical reasons, the South
13 African branch of Mittal Steel will not sell through
14 Mittal Steel North America. They have an exclusive
15 agreement with another distributor. So, unlike most
16 multinationals, at least Mittal is going to have --
17 Romania and Czech Republic nominally is going to have
18 some coordination perhaps, but South Africa is going
19 to be handled totally separately.

20 COMMISSIONER PEARSON: Okay. So, you're
21 saying it's less likely that the integration of the
22 firms across boundaries would --

23 MR. GURLEY: Well, certainly, with respect
24 to Tenaris, there's no -- based on the past behavior
25 of already having access to the market, there's no

1 reason to believe that suddenly, if the orders were
2 revoked, that Tenaris would somehow coordinate their
3 efforts and how we're going to use Romania now to ship
4 our products. If they had the desire or the need to
5 ship a lot of the subject merchandise to the United
6 States, they would have done so. They have made a
7 strategic decision to focus on other types of
8 products, and maybe Mr. Daneo can speak about that a
9 little bit.

10 MR. DANEEO: That is true. We already have
11 mills closer than Romania to the North American market
12 that could have supplied this product, and they
13 didn't. The strategic vision for Romania is to
14 anticipate what is happening in Europe. We have
15 locations on the eastern country, remain subcontractor
16 automotive markets that requires cold drawn products.
17 The increase in demand in regional oil and gas
18 products in southern Europe, in Kazakhstan and
19 Tajikistan, so we have two main goals on our original
20 market, and we want to fulfill those goals. North
21 America line pipe is not a profitable business and
22 we're not interested in a non-profitable business.
23 That's in the end.

24 COMMISSIONER PEARSON: Mr. Reilly?

25 MR. REILLY: I'll give you an economist

1 perspective on it. I was mystified by the conclusion
2 that increasing concentration leads to disorderly
3 markets and dumping. In fact, I think most economist
4 would conclude exactly the opposite. When you become
5 increasingly concentrated, especially in an industry
6 like steel, where there's substantial capital
7 investment, both in terms of physical plant and
8 working capital and so forth, you end up with a series
9 of entities that have enormous economic staying power.
10 In addition, they're extremely sophisticated, in terms
11 of their planning and in terms of their allocation to
12 their capital to the production of various kinds of
13 products. The last thing they want is a situation in
14 a market where there is going to be chronic oversupply
15 of product, chronic low prices, and chronic absence of
16 profits. For example, a sophisticated company like
17 Mittal, if it wanted to become a significant player in
18 the United States market for pipes and tubes, it would
19 follow exactly the strategy that is followed in all
20 other countries where it wants to be a significant
21 player. It would acquire somebody. Thank you.

22 MR. GURLEY: One last comment with respect
23 to Mittal. There was the point made that because
24 they're a multinational with Tenaris, that means
25 they're automatically accepted in the marketplace.

1 Well, that's not necessarily true. There's been a lot
2 of testimony that the big energy companies base their
3 decision on whether to buy based on not whether the
4 name is Tenaris or Mittal, it's based upon whether the
5 particular mill has been certified. And to our
6 knowledge, none of the Mittal mills have been
7 certified to be sold to any of the major oil
8 companies.

9 COMMISSIONER PEARSON: And that's consistent
10 with your understanding, Mr. Allen?

11 MR. ALLEN: That is correct. I think I
12 mentioned that earlier, that we are not on any of the
13 approved manufactured list of the major oil companies,
14 and that speaks to for use or consumption here in the
15 United States. So, that speaks to neither Roman or
16 Mittal Ostrava, which is Czechoslovakia.

17 COMMISSIONER PEARSON: Some companies that
18 have experience with antidumping cases have developed
19 or implemented someone else's accounting systems to
20 monitor the sales prices of individual sales into
21 countries where they anticipate -- well, either where
22 there is an antidumping order and anticipation that
23 there might be such an order. Do we know whether
24 either Mittal or Tenaris have those sorts of systems
25 in place, either at the corporate level or in the

1 individual plants that are subject to this order?

2 MR. GURLEY: I can't speak for all of the
3 mills as to exactly what they're doing 100 percent of
4 the time. I will tell you that there has not been any
5 shipments to the United States from the Mittal mills
6 of the subject merchandise since the order, and they
7 just took over some of these a couple of years ago.
8 With respect to some other Mittal mills, which we
9 represent, yes, they have instituted programs to make
10 sure that there's no dumping.

11 COMMISSIONER PEARSON: In other products or
12 in pipe?

13 MR. GURLEY: In other products. The pipe is
14 one where, frankly, I haven't been involved in that
15 much. They've just taken them over a couple of years
16 ago. But, there hasn't been -- they're just in a
17 transition mode. But, certainly, other plants, that I
18 have been following, and they're monitored.

19 COMMISSIONER PEARSON: Okay. So, your
20 testimony is that Mittal has sufficient experience
21 with antidumping in different countries, so that it's
22 found it prudent to institute accounting systems that
23 would allow them to monitor very closely whether they
24 might be dumping on an individual shipment?

25 MR. GURLEY: Certainly, the mills know they

1 should and most of them have taken into account. I
2 can't swear here today that all of them have done a
3 perfect job, but they know that they have to monitor,
4 yes.

5 COMMISSIONER PEARSON: Mr. Daneo?

6 MR. DANEEO: Yes. As for Tenaris, I'd like
7 to add that we have those kind of a controls. When we
8 acquire Silcotub, Silcotub was already a dumped mill
9 or antidumping proceeding. So, we established a
10 system of control, in order to avoid future
11 implications for dumping, because in any case, apart
12 from the cost of the lawyer, it's a big problem. And
13 when I was talking about regional, producer for a
14 regional market, I want also to underline the fact
15 that Silcotub, as our original business, you need to
16 focus on Eastern European markets. And when I told
17 you that two-thirds of our sales are managed -- sent
18 in regional markets, this means that we particularly
19 follow those sales for our regional market as our main
20 market. For the remaining two-thirds --
21 unfortunately, I cannot respond for other people, but
22 we have corporate offices that follow those global
23 sales. So, as far as the task of my office, the
24 planning department, I can adhere that we strictly
25 control and we try to detect the desires sometimes of

1 the sales force to sell in any case. So, we are there
2 to control and to guide them. And that's all.

3 COMMISSIONER PEARSON: Okay. Thank you,
4 very much. Mr. Chairman, the light is changing,
5 hasn't turned red yet, and so I think I will stop
6 right now. Oops, just lost it.

7 CHAIRMAN KOPLAN: Thank you. Commissioner
8 Aranoff?

9 COMMISSIONER ARANOFF: Thank you, Mr.
10 Chairman. In looking at the modest amount of pricing
11 data that we were able to collect for the period, this
12 review period, due to our -- we have some on the
13 Romanian product, which are confidential, but they do
14 show that the Romanian product undersold the U.S.
15 product pretty consistently and by not insubstantial
16 margins. And as you were discussing earlier with
17 Commissioner Lane, there was some projection that
18 there might be a modest amount of Romanian imports or
19 increase in the Romanian imports, if the order were
20 revoked. And so my question to you is what data or
21 information in the record should I be looking at to
22 support the contention that this kind of underselling
23 either wouldn't continue if the order were revoked or
24 wouldn't have a significantly depressing or
25 suppressing on U.S. prices?

1 MR. GURLEY: Well, on the first point, it's
2 pretty evident that from all of the imports that have
3 come in, in 2004 and 2005, they did not have any
4 negative impact on U.S. prices. U.S. prices continued
5 to go up.

6 With respect to the Romanian data that's on
7 the record, the only exports out of Romania were
8 really were Silcotub, and not to pass the buck on the
9 previous regime, they went through several antidumping
10 reviews, most of which they got a zero. But, I was
11 actually a different company, which was owning and
12 controlling Silcotub at that time. And since 2004,
13 when Tenaris took over Silcotub, they have not entered
14 into any U.S. sales contracts. And, in fact, at the
15 time of the purchase, they had a zero percent
16 antidumping duty or very close to it and Tenaris had
17 made it a business decision when they purchased the
18 company that it was going to be a regional producer
19 for a regional market. So, the data that's on the
20 record that suggests it was underselling, I'd say it
21 should be -- it's qualified, to the extent it was by
22 the previous regime and that since Tenaris took it
23 over, they haven't made any exports, even though they
24 clearly could have.

25 COMMISSIONER ARANOFF: Well, just to get you

1 to follow up on that, Commerce recently did a review
2 and raised the margin considerably above zero. I
3 don't know if you can do a time line for me that
4 compares when that happened to when this business
5 decision was taken to not pursue the U.S. market
6 anymore.

7 MR. GURLEY: I can absolutely do a time line
8 and provide affidavits from Tenaris that they entered
9 into no contracts when they purchased the company and
10 that all the sales that showed up in that review,
11 where there was some margins, were executed under the
12 private owners. But, I will also tell you that when
13 Silcotub was first making its shipments to the United
14 States and had several thousand tons of shipments
15 during several years, the margins were actually 13 to
16 14 percent. So, coming out of the investigation, I
17 think their margin may have 13.5. And so, it wasn't
18 the margin that was blocking Tenaris from shipping to
19 the United States. It was a business decision. If
20 anything, it was easier to ship after they purchased,
21 because the prices started going up. But, we will
22 provide that time line.

23 COMMISSIONER ARANOFF: Okay, thanks. I
24 appreciate that.

25 MS. NOONAN: Commissioner Aranoff, may I

1 add? We will provide the time line. But, we do have
2 some information in footnote two for Silcotub's pre-
3 hearing brief, where we talk about the dates, the
4 effective dates of the change in the cash deposit rate
5 and that 15.5 did not occur until July 18, 2005, and
6 that was right around when Tenaris was acquiring
7 Silcotub. And I do think that the evidence on the
8 record does show, though, that there was price
9 increases for the Romanian product. It just was still
10 underselling the U.S. product, but there was at least
11 some in tandem price increase going up.

12 COMMISSIONER ARANOFF: Let me follow up on
13 that. Normally, when we see in tandem price
14 increases, but relatively consistent level of
15 underselling, it reflects something about the quality
16 of the product. That's often the case. Is that the
17 case here?

18 MR. GURLEY: I will let Mr. Daneo talk, but
19 I'm going to say that the product is not on the AML
20 list. So, to the extent that U.S. Steel was selling
21 to distributors, which required certified pipe, they
22 were not doing that. They're certified in the general
23 generic way of being API 5L or triple certified, but
24 they're not on the major petroleum list of approved
25 customers.

1 COMMISSIONER ARANOFF: But, that's not -- I
2 mean, that's not because they couldn't be, that
3 there's anything actually inferior about the way that
4 the product is made or its chemistry or anything like
5 that, that would cause it. It's just that purchasers
6 have not chosen to pursue additional suppliers.

7 MR. GURLEY: I'd like to have both of the
8 gentlemen respond to that. But, just because you have
9 -- just because you're triple certified doesn't mean
10 that you're good enough in the eyes of the major
11 petroleum companies to qualify for their list. It's
12 not just having API 5L. You have to go through a bunch
13 of other tests.

14 MR. ALLEN: Certification is a long drawn
15 out process in today's -- with the major oil
16 companies. I don't -- if I set out to try to get our
17 mill certified by Shell Oil today, I might move that
18 line, but maybe not. It takes a long -- it's an
19 arduous process where they send people over. They
20 have to tour the mill. They do audits. They go
21 through a period. And then they'll turn around and
22 ask that internally, inside any given major oil
23 company, whether it be Shell or Exxon-Mobil, or
24 something else, there has to be a generation of a
25 request internally to send that audit team over,

1 meaning that the -- be if the production department or
2 the drilling department might have to generate a
3 request to the quality assurance team to send them
4 over. It is a long and drawn out process, one which
5 is no -- it doesn't surprise me that there are few
6 that are on what we call the approved manufactured
7 list in many cases.

8 COMMISSIONER ARANOFF: But, the facilities
9 in the subject countries must be on approved lists for
10 those same oil companies for their operations in
11 Europe?

12 MR. ALLEN: That, I can't speak to. I don't
13 want to -- I mainly was referring to consumption in
14 the United States, sale of product into the U.S.

15 COMMISSIONER ARANOFF: Okay. Mr. Daneo, do
16 you know anything about that?

17 MR. DANE0: Yes, I would like to add some
18 more comments, if I understood correctly your
19 question. The evolution of the quality of the
20 Silcotub products before and after the takeover, the
21 evolution is dramatic. We found a terrible situation.
22 We tried, and we're trying to improve the quality of
23 our products. But, improving the quality in which
24 direction? In the direction of either OCTG and cold
25 drawn products, because we're running, as my colleague

1 told, very extremely complicated and articulated. And
2 validation processes for our clients, European
3 clients, to allow Silcotub, as a mill, because the
4 brand is recognized from Silcotub as a mill to be
5 inserting their purchasers at least for OCTG and cold
6 drawn products. So, we invested a lot in controls
7 system. We're still ramming up investments, but focus
8 on OCTG for our domestic clients and automotive
9 products.

10 MR. REILLY: I just want to make another
11 point about the issue of the premium that domestic
12 product may command over imports. There is a quality-
13 related premium and a preference for U.S. products,
14 but there's also a premium because the cost of buying
15 from a foreign supplier, a distant foreign supplier,
16 is considerably higher than the cost of buying from a
17 domestic supplier. And that has to do with two
18 things. One is lead times. If you give an order to a
19 mill in Romania or Czechoslovakia or South Africa, you
20 have to wait several months before you actually
21 receive that product. And that means you're going to
22 be tying working capital up in that product. In
23 addition, as opposed to say a U.S. mill, where the
24 lead time may be 30 days or two months or less, in
25 addition, the buyer, which is generally a distributor,

1 if you're talking relative to U.S. producers, has much
2 less flexibility to adjust inventory to changing
3 market conditions in dealing with a foreign supplier,
4 because of these long lead times. Once should put the
5 order in, you own it. And regardless of whether
6 market conditions change a month later or two months
7 later, you've got to take that product, even though it
8 may put you very long in inventory and you're going to
9 be sitting on it for a long time. There's much more
10 flexibility in dealing with a U.S. producer and that's
11 why there is, in fact, a premium for U.S. products.

12 COMMISSIONER ARANOFF: I appreciate that
13 answer.

14 MR. REILLY: And that's both quality related
15 and related to the economics of purchasing.

16 COMMISSIONER ARANOFF: I appreciate that
17 answer. And I would just ask in the post-hearing
18 brief, if you could specify for each of the plants
19 that you represent in the subject countries exactly
20 whose AMLs they are on in the United States, if any,
21 and by extension, whose they're not on, and whether
22 you agree with the testimony that we heard from the
23 domestic industry this morning about -- they had
24 testified as to what percent of their sales were to
25 people, who had AMLs. And, in general, it was 30

1 percent, except for one of the distributors.

2 MR. GURLEY: We will do that.

3 COMMISSIONER ARANOFF: Thank you, very much.

4 CHAIRMAN KOPLAN: Thank you. First, a
5 housekeeping matter. Mr. Reilly, your Exhibit 7, your
6 heading in that is NF Group consolidated income
7 statements and your source is U.S. Steel historical
8 segment financial and operational data. Your
9 microphone wasn't on.

10 MR. REILLY: That's a typo. It should have
11 been NS Group.

12 CHAIRMAN KOPLAN: Okay.

13 MR. REILLY: And we'll submit a corrected
14 page.

15 CHAIRMAN KOPLAN: Thank you. Mr. Allen, you
16 testified in response to Commissioner Lane that
17 domestic producers have distributors on allocation, I
18 recall. I may have missed this, but were you
19 referring to subject product or OCTG when you said
20 that?

21 MR. ALLEN: I was referring to OCTG --

22 CHAIRMAN KOPLAN: Okay.

23 MR. ALLEN: -- which affects the subject
24 product in the sense that -- the way that actually
25 works it says only allocation -- when the demand for

1 the product exceeds the deliverability or supply, the
2 mills have -- they recognize that I have -- I'm going
3 to produce 40,000 tons this month and I have my -- my
4 distributor base has ordered from me 52,000 tons.

5 CHAIRMAN KOPLAN: Can you quantify or
6 document this in any way for us, for purposes of the
7 post-hearing?

8 MR. ALLEN: I think it would be more
9 appropriate if -- what I'm getting at is I don't have
10 the specific inside information --

11 CHAIRMAN KOPLAN: Okay.

12 MR. ALLEN: -- about what those figures are
13 for each of their distributors. It's between -- it's
14 their information, not mine. I'm speaking from
15 talking to the distributors and them confirming that
16 they're on allocation. They can only get so many tons
17 from U.S. Steel or another distributor -- or another
18 manufacturer like V&M Star or Koppel, to the point
19 that they're saying I can only get x amount of tons
20 allocated to me. Now, why I tie that to the subject -
21 -

22 CHAIRMAN KOPLAN: Let me stop you for a
23 second. Does that mean, then, that you can submit at
24 least specific anecdotal information, based on what
25 they have told you or not?

1 MR. GURLEY: Yes, we can provide that.
2 We'll put an affidavit.

3 CHAIRMAN KOPLAN: Okay. All right.

4 MR. ALLEN: When a mill goes into allocation
5 mode, when I was trying to tie it back to this thing,
6 basically is that they've got x amount of tons that
7 they can produce. And after they give the allocation,
8 those distributors then have to seek the additional
9 tons from another source elsewhere. That has been
10 going on since the beginning -- or the -- I guess when
11 the perfect storm came at the fall of 2003 and 2004 is
12 when the allocation kicked in, I believe, and I don't
13 know exactly the dates. But what it does is it draws
14 away from the subject matter -- or that they would use
15 dedicated to --

16 CHAIRMAN KOPLAN: I understand your
17 argument.

18 MR. ALLEN: Okay.

19 CHAIRMAN KOPLAN: It's the specifics that I
20 was looking for. So, I look forward to whatever you
21 can provide post-hearing for me. Thank you. On page
22 11 of -- let's see, why don't we do it this way? You
23 all have made the argument today again that Romanian
24 CASSLP pipe producers are not on many approved
25 manufacturing lists, AML lists, and that that

1 restricts the markets in which you can compete with
2 U.S. produced pipe, right?

3 My recollection is we found in the original
4 investigation, and I'm looking at beginning on page 22
5 and then closing on page 23, and I'm quoting, "That
6 there are a significant number of purchasers who do
7 not rely on AMLs." So we considered that issue in the
8 original investigation.

9 My question is has that changed since the
10 original investigation? You're alleging now that
11 there are no longer a significant number of purchasers
12 who do not rely on AMLs?

13 MR. GURLEY: No, I think the fact that there
14 has been sales even since the order was introduced
15 shows that there are certain purchasers which do not
16 require it.

17 Our point is that there is a big chunk of
18 the market which is really dedicated to the U.S.
19 producers that we cannot approach and could not
20 approach in the reasonably foreseeable future.

21 CHAIRMAN KOPLAN: But our finding at that
22 time was that a significant number of purchasers
23 didn't require it and I just wondered whether that's
24 diminished since the original investigation, if that
25 was your argument now.

1 MR. GURLEY: I will query my clients more
2 carefully and get back to you.

3 CHAIRMAN KOPLAN: Thanks.

4 MR. REILLY: Mr. Chairman, John Reilly.
5 There's one additional related point, I think, that
6 needs to be made.

7 CHAIRMAN KOPLAN: Sure.

8 MR. REILLY: And it gets at, I believe, some
9 issues that Commissioner Hillman raised earlier today
10 when the domestic industry was appearing and that is
11 that there seems to be a significant difference
12 between the average unit value of non-subject imports,
13 actually, all imports of the subject product, and the
14 prices that the U.S. producers are reporting. And she
15 also made the point that it appears that these low
16 priced non-subject imports are non-injurious given
17 that domestic production remains high, domestic prices
18 are rising and profits are going through the roof.

19 That suggests that these products aren't
20 quite as fungible as the domestic industry would have
21 us believe because if competition between the domestic
22 production and these imports is not in some way
23 attenuated, then the situation which Commissioner
24 Hillman described can't exist, just as a matter of
25 basic economics. One vehicle for this type of

1 two-tier pricing system is a domestic industry that
2 sells principally and substantially into this
3 protected AML market, whereas imports are competing
4 for the residual where that requirement does not
5 exist. So even though there may be a significant
6 number of purchasers out there that don't require AML
7 listing, it may well be that the domestic industry is
8 focusing its efforts on those buyers that do and in
9 that way the competition between the domestic product
10 and the imported product is attenuated because clearly
11 the domestic industry cannot meet all domestic demand
12 for these products by any manner of means.

13 CHAIRMAN KOPLAN: Thank you for that.

14 Ms. Noonan, you dealt with the issue of
15 cumulation with regard to Romania on your direct. The
16 Mittal brief argues that imports from Romania should
17 not be cumulated with those from any other subject
18 supplier because, among other factors, and I'm looking
19 at what you said in your brief, production capacity in
20 Romania has decreased while capacity utilization is
21 high and projected to get higher. That's a quote from
22 you.

23 The confidential version of the pre-hearing
24 report informs as to the capacity of Romanian
25 producers during the period of review at pages 419 and

1 20 of our pre-hearing report. The data, which is
2 based on the response to commission questionnaires is
3 bracketed.

4 Can you provide additional information on
5 the alleged decreases in capacity, specifically how
6 the decrease in capacity was accomplished and what it
7 would take to ramp it back up?

8 I will take whatever you can tell me now
9 and, if necessary, you can supplement your response in
10 your post-hearing submission. If you'd rather do it
11 all post-hearing, you can do it that way, but I am
12 interested in that further detail.

13 Is there anything you can give me now?

14 MS. NOONAN: I think all that will be
15 confidential, but I would like to point out that we
16 did submit revised pages to our questionnaire
17 responses after we received the pre-hearing staff
18 report and we realized that there were some errors
19 there, so that might also explain some of the
20 differences in the numbers.

21 CHAIRMAN KOPLAN: Thank you. I'll look
22 forward to whatever I get as well post-hearing. Thank
23 you.

24 Mr. Gurley, Skadden's pre-hearing brief at
25 pages 9 and 10 argues that the commission should at

1 the least rely on facts available to estimate data
2 regarding subject imports' ability to impact the U.S.
3 market by scaling the reported data by the share of
4 production accounted for by responding subject firms.

5 Skadden lists the estimated share of
6 production reported by responding firms from Japan,
7 the Czech Republic and Romania.

8 In my opinion, a significant gap exists
9 between what we sought and what we got from the
10 subject industries in each of those countries.

11 You have knowledge of the BPI that I cannot
12 discuss here. I'd like to know how you respond to
13 their argument. Am I simply to ignore the failure to
14 provide the information requested when looking at
15 foreign capacity utilization?

16 Do you want to deal with that now or in the
17 post-hearing?

18 MR. GURLEY: I will deal with part of it now
19 because I think it's important to understand,
20 especially with respect to Romania and Czech Republic,
21 those entities that did not file questionnaire
22 responses.

23 In the original investigation five years
24 ago, there were three companies that were cited for
25 exporting to the United States. It was Silcotub,

1 Petrotub which is now Mittal and a company called
2 Republica. Republica is now out of business and is
3 now no longer producing.

4 There is another producer in Romania which
5 was not exporting in the United States at the time of
6 the investigation which is called Artron. They do have
7 some capacity. I personally sought to get them to
8 supply information. They said we don't care about the
9 U.S. market.

10 So while we think there is a gap and we
11 acknowledge it, we don't think the gap is important
12 because they weren't exporting five years ago and
13 they've shown no real desire to export now.

14 With respect to the Czech Republic, frankly,
15 for a long time, I didn't even know there was a second
16 producer. It turns out there was. Again, in the
17 original investigation, Commerce investigated a single
18 entity. That entity was Novahud, which is now Mittal
19 Ostrava. So, again, at the time, the company that was
20 focused on the U.S. market years ago or at least was
21 shipping there was the party that produced the
22 information today. So while there is a bit of a gap,
23 I don't think those gaps are particularly important
24 given the historical basis for who's participating
25 today and who was involved in the market five years

1 ago.

2 CHAIRMAN KOPLAN: Thank you for that and
3 I look forward to your expanded answer in the he
4 post-hearing.

5 Vice Chairman Okun?

6 VICE CHAIRMAN OKUN: Thank you.

7 Let me join my colleagues in welcoming this
8 panel this afternoon. I appreciate your testimony and
9 your appearance here and, Mr. Daneo, for traveling a
10 long way to be with us. We very much appreciate your
11 willingness to answer our questions.

12 Let me, if I could, just ask for maybe
13 expanded information on how you see demand going
14 forward in the global market.

15 Mr. Daneo, in your testimony, you talked
16 about some of the things going on in the home market
17 and the anticipation of the E.U. market continuing to
18 be a good market. Tell me a little bit more about how
19 Tenaris views, if you can, the global demand
20 situation.

21 MR. DANEO: Okay. I will try even if, to
22 tell you the truth, my knowledge of the entire vision
23 of Tenaris is not so complete.

24 Tenaris is an OCTG-oriented company. This
25 is not a mystery for no one. Tenaris has a strong

1 presence with other mills in other markets, with other
2 oil and gas clients, with whom we have created a
3 special relationship of services. We don't simply
4 produce pipe, but we sell services. We will bring the
5 pipe where they need, how they need, when they need.
6 So Tenaris already achieved knowledge and experience
7 in this field and decided to transfer this kind of
8 approach to business in the eastern part of Europe
9 where we had a big player in oil and gas Petrom
10 totally abandoned and only recently acquired by a
11 multi-national. So this is an important client to be
12 detected.

13 Another important factor of the strategy of
14 Tenaris is that we are facing competition from lower
15 cost producers and the only way is to point on
16 quality. I'm not revealing any mystery strategy. The
17 common strategy of the U.S. producer or any other big
18 player is to bring higher the level of the product,
19 put in new quality, new technical specifications,
20 increasing research and development, to leave the
21 lower hand level of products to other competitors.

22 So Tenaris simply is replicating in Romania
23 what it did in the other markets, increasing quality
24 of product, focusing on higher value product,
25 automotive cylinders, oil and gas, and not investing

1 on low end products like could be standard line pipes.

2 Romania is the case because given the
3 maximum capacity already achieved in terms of rolling
4 capacity we are investing in the finishing lines in
5 order to add additional possibility of allocating the
6 present rolling capacity on, I repeat, 10:46 and OCTG
7 products.

8 VICE CHAIRMAN OKUN: I appreciate those
9 comments. If there is anything statistically for
10 post-hearing for us to help understand on the
11 demand -- and maybe on that I will go to a related
12 point. In the briefs and some of the testimony today,
13 there was a lot of weight put on our discussion of the
14 rig count and I just would like you to help explain to
15 me -- one of things, these are all tubular products,
16 we've done OCTG, we've done seamless, but it's always
17 been my understanding in reading through what we've
18 done in other opinions that for OCTG there was a much
19 closer tie in to the rig counts because of what OCTG
20 is used for versus seamless and we had a discussion
21 with Mr. Schagrin this morning about that and natural
22 gas is a very important part, especially for large
23 diameter.

24 I just wanted to have a chance to have you
25 either say that you think it's equally important to

1 look at rig count or whether you agree that that's
2 still a distinction between the products that you
3 sell, where your demand projections are going to be
4 tied for OCTG more closely to rig count and for
5 seamless more closely tied to the petrochemical
6 projects.

7 Is that accurate?

8 MR. REILLY: John Reilly. There is a
9 connection between the two, but clearly the
10 relationship between OCTG demand and the down-hole
11 demand and drilling activity is quite direct. The
12 relationship between the seamless products we're
13 concerned with, the small diameter seamless products
14 we're concerned with, is more indirect.

15 First of all, the effect of increased
16 exploration and development activity will be delayed
17 because you have to drill the well. There will be
18 some demand from collecting lines of the small
19 diameter, but the major connection between the two is
20 in the allocation of capacity.

21 If you look at the data, you see that for
22 seamless there was a significant increase in OCTG
23 shipments and consumption between 2004 and 2005 in
24 this country. That did not occur in small diameter
25 seamless, yet the price of small diameter seamless

1 increased very substantially. Basically, what we have
2 is a situation where supply of small diameter seamless
3 becomes limited by the allocation of capacity to OCTG
4 production and producers on the supply side require a
5 high price in order to be able to produce that stuff
6 at the margin as opposed to producing more OCTG.

7 VICE CHAIRMAN OKUN: Okay. I understood it
8 on the allocation side, I just wanted to make sure for
9 purposes of trying to understand what demand is like
10 both in the United States and in the other markets
11 where your mills would be shipping product if there's
12 anything else you could put on the record and, as
13 I asked the Petitioners to comment on the EAI data,
14 the most recent data that we can get.

15 MR. REILLY: There is one point about demand
16 that I think is worth mentioning and that is
17 Mr. Schagrin made comments about the fact that the
18 price of natural gas has declined recently. I don't
19 make as much as he does of that because basically what
20 you have is a situation where the winter was warmer
21 than expected so seasonal demand didn't go up as
22 sharply but that's kind of a one-time event. It
23 doesn't say anything about demand going forward and
24 consumption going forward unless we want to assume
25 that we're going to have Florida-like winters for the

1 next ten years, but there is another point and this
2 has to do with the price of oil.

3 The subject producers, Mittal Roman, Mittal
4 Ostrava, and Mittal South Africa, are much more tied
5 to the production of oil wells relatively speaking
6 than are the domestic U.S. producers, so when the
7 price of oil remains high over a given period of time,
8 their demand for OCTG in non-U.S. markets that are oil
9 drilling intensive remains quite high.

10 I might note in that regard that Tenaris,
11 which is the largest producer of OCTG in the world,
12 has a very rich product mix. Their average price for
13 seamless during 2005 was \$1974 and that's principally
14 for sales outside of the United States market. That
15 average value was up 40 percent from 2004. So Tenaris
16 in its worldwide operations is extremely profitable
17 and is getting very high average prices and would have
18 no motivation to allocate production away from its
19 high value stuff to relatively low value product in
20 the U.S. market.

21 VICE CHAIRMAN OKUN: And on that, Mr. Daneo,
22 maybe I would give you a chance to respond.

23 Mr. Shoaff from Sooner Pipe had talked about
24 how he viewed Tenaris in the marketplace. I can't
25 remember his exact words, but being very much driven

1 to increase its market share and there is product from
2 Tenaris in the U.S. market.

3 I wondered if you could comment on that and
4 give us any perspective on that.

5 MR. DANEEO: Unfortunately, my knowledge of
6 the strategy of Tenaris North American is limited
7 because I am focused on our regional market for
8 Romania, so I would prefer not to tell you something
9 I am not sure about and postpone the answer.

10 VICE CHAIRMAN OKUN: Okay. I appreciate
11 that. Maybe you can't answer this, too, but one of
12 the other things I heard from the distributors this
13 morning is that there are, I think, Mr. Allen, you
14 alluded to this, a number of the distributors are
15 specific to a Tenaris group distributor and I wonder
16 if there's any information you can provide with regard
17 to that as to Mittal as well for post-hearing, if you
18 couldn't do it now.

19 MR. GURLEY: We can do that post-hearing.

20 VICE CHAIRMAN OKUN: Okay. I appreciate
21 that.

22 I see my yellow light has come on, so I'll
23 stop. Thank you.

24 CHAIRMAN KOPLAN: Thank you.

25 Commissioner Hillman?

1 COMMISSIONER HILLMAN: Thank you. I, too,
2 would join my colleagues in welcoming you all here
3 this afternoon. We very much appreciate your taking
4 the time to be with us.

5 Mr. Reilly, if I can start with you just to
6 make sure I understand some of the things that you've
7 put up on these charts.

8 First, with respect to the ones on Japanese
9 production, you're making a distinction here between
10 ordinary steel and specialty steel. Exactly what is
11 that distinction and which of them or both are subject
12 product?

13 MR. REILLY: The data for Japan cover all
14 seamless products and the distinction that they make
15 in reporting is between ordinary steel, which is
16 carbon steel, and specialty steel, which is non-carbon
17 steel.

18 Included within the carbon steel category
19 would be the vast majority of the subject product, the
20 subject small diameter products, although that's not
21 broken out specifically.

22 The point I'm making is that if you take a
23 look at their aggregated production --

24 COMMISSIONER HILLMAN: Hold on here. This
25 order covers carbon and alloy product, so it's not

1 limited to carbon product. So help me understand.
2 You're saying in essence all of the ordinary steel, as
3 you've listed it, would be a carbon product, a subject
4 product.

5 MR. REILLY: No, it would be a carbon
6 product that includes the subject product. This is
7 total production of seamless tubular products in
8 Japan.

9 COMMISSIONER HILLMAN: Okay. So you're
10 saying it's over inclusive how?

11 MR. REILLY: It includes OCTG. It includes
12 all other non-subject, non-OCTG carbon products.

13 COMMISSIONER HILLMAN: Okay. And then,
14 again, go to the specialty steel. What is meant by
15 that and why split it out this way if they're both
16 subject product?

17 MR. REILLY: First of all, I can't go into
18 the specifics because they're confidential, but if you
19 look at the ratio of domestic production and shipments
20 of alloy versus domestic production and shipments of
21 carbon, you will see a major distinction. We'll go
22 into that in our post-hearing brief. That distinction
23 means that the focus really of the domestic industry
24 is on producing carbon steel products, small diameter
25 standard and line pipe. But the Japanese, in terms of

1 their overall production of seamless products, has
2 allocated their production significantly away from
3 carbon steel products and to products that are less
4 important to the U.S. producers within the subject
5 group.

6 That says to me that they're moving away
7 from the production of lower value products to the
8 production of higher value products as a matter of
9 strategy and it makes sense because Japan is a high
10 cost producer.

11 In terms of their exports, which I also
12 mentioned, I look at their exports of carbon steel
13 seamless and it's again, over inclusive. It includes
14 the subject products, both small diameter and large
15 diameter, as well as OCTG and non-subject products.
16 Exports of those products have gone down despite very
17 substantial increases in average prices.

18 Now, that says to me that they would not be
19 interested in allocating capacity away from the higher
20 value products to increase their shipments of subject
21 products if the order were removed because subject
22 products are in the category of lower value, lower
23 profits and not products that they're emphasizing in
24 their production and shipment strategy.

25 COMMISSIONER HILLMAN: All right. Another

1 question. I just want to make sure I understand it.
2 You put up some of the data with respect to U.S. Steel
3 and, as I heard the argument, are saying that the fact
4 that they did not produce more in 2005, I guess it
5 was, notwithstanding the fact that the prices were
6 high, you attribute to the fact that they were
7 producing all that they could or perhaps that they
8 were producing more OCTG and therefore didn't have the
9 billets and rounds or the capacity to produce more
10 seamless pipe.

11 MR. REILLY: Yes. It seems to me there are
12 three possibilities --

13 COMMISSIONER HILLMAN: Let me just finish
14 because what I'm trying to understand -- we heard very
15 direct testimony from U.S. Steel this morning that
16 said the reason they didn't produce more in 2005 was
17 because they didn't have an order for it, it was an
18 issue of their order book, there was not an order
19 there. I'm trying to understand whether you're
20 disputing that assertion by U.S. Steel or whether
21 there's something else that caused this presentation.

22 MR. REILLY: It's something -- part of this
23 is confidential. Let me see what would be public.

24 You know what the level of reported capacity
25 utilization is for the period, the confidential level.

1 It's very surprising in view of the behavior of prices
2 and the behavior of producer profits. Normally,
3 significant increases in prices bring forth additional
4 supply. That generally is what an economist would say
5 looking at a market. That did not occur, despite the
6 fact of those capacity numbers and capacity
7 utilization numbers.

8 That doesn't compute. Something is wrong
9 with the numbers, okay? And I think that there are
10 three possibilities.

11 COMMISSIONER HILLMAN: I don't understand
12 whether you're saying something is wrong with the
13 numbers as opposed to -- you're telling me that their
14 testimony, that they did not have the orders to
15 continue to increase their production, is not
16 accurate?

17 MR. REILLY: Well, let's look at it this
18 way. They are continually raising prices, right?
19 That's basically what they've said. U.S. Steel has
20 another \$50 price increase for April. Okay. So
21 basically if they're sitting there and raising prices
22 and saying, okay, we're getting enough orders so I'm
23 happy, I don't care that there's unused capacity, then
24 that's one thing. There's also the possibility that
25 there's a glitch in the way capacity has been

1 calculated. For example, I heard this morning that
2 Lorain is operating at one shift a day. Okay. If
3 Lorain is producing all it can at one shift a day, in
4 order to go to an increased production, they would
5 have to increase to, say, two shifts a day. But you
6 can't increase production by going to two shifts a day
7 by a little. You have to increase production by a lot
8 because you've effectively doubled your capacity to
9 put product out the door and you've also incurred a
10 substantial increase in labor costs.

11 Normally, in my experience, the commission
12 has requested that capacity be calculated on the basis
13 of normal operating practice and if your normal
14 operating practice is one shift a day, it should be
15 calculated at one shift a day, not what it could be if
16 you went to two shifts or three shifts. And if that's
17 the case, then that capacity is calculated at two or
18 three shifts a day, then there's a glitch in the way
19 capacity has been calculated.

20 MR. GURLEY: Just one point. We heard from
21 Mr. Reilly this morning about the capacity utilization
22 of Koppel Steel, the public available information. It
23 was operating at 98 percent. We find it odd that two
24 steel companies who are both making gobs of money, of
25 them is operating at 98 percent and one of them is

1 operating a significantly lower number. We can't say
2 that their testimony is inaccurate. It just makes us
3 wonder.

4 COMMISSIONER HILLMAN: I appreciate that.

5 Then on the issue of the effect of Tenaris
6 and Mittal, I've heard the testimony in terms of the
7 marketing and sales in the U.S. The other part of
8 their testimony was this issue of, if you will, the
9 deeper pockets or backstopping liability by being part
10 of a bigger group makes it more likely that you can
11 sell into certain markets than if you're a stand alone
12 small mill from Romania or the Czech Republic or
13 wherever, just having that name behind you and the
14 larger deep pockets.

15 What is your response to that?

16 MR. GURLEY: I'll let Mr. Daneo talk about
17 that.

18 MR. DANEEO: No, this is true. Having
19 Tenaris as a brand name helps and how do we see this?
20 We see that from 2004 to 2005 we doubled our sales in
21 our regional market European because obviously being
22 Tenaris we were able to reach clients already clients
23 of Tenaris for other mills, saying, look, now I was
24 previously sending you pipes from Mexico, Canada, now
25 I can bring you pipe closer with lower lead times,

1 with lower logistic costs being where you need but
2 locally. That's why thanks to the fact that we
3 entered in with Tenaris we were able to double our
4 sales in our regional market. That's true.

5 COMMISSIONER HILLMAN: Okay.

6 MR. REILLY: I just want to add one thing
7 about that concept. Having a brand means you can sell
8 your product for a higher price and that there is less
9 of a tendency to get desperate to move your product
10 and cut price in order to get into a market.

11 Like I said before, large companies in
12 concentrated markets tend to prefer orderly markets
13 and they tend to emphasize non-price elements in their
14 selling that are connected with brand name, superior
15 service, better logistics and shorter lead times.

16 Thank you.

17 COMMISSIONER HILLMAN: All right.

18 Thank you.

19 CHAIRMAN KOPLAN: Commissioner Lane?

20 COMMISSIONER LANE: Mr. Daneo, you said that
21 Romania has long-term agreements with other countries
22 to buy Romanian CASSLP pipe and that this was one
23 reason Romania is not interested in the United States.
24 Who are these agreements with and are they subject to
25 renegotiation?

1 MR. DANEO: I'm sorry, I missed the last
2 part of the question.

3 COMMISSIONER LANE: Are these agreements
4 that you can renegotiate and sell your product
5 elsewhere?

6 MR. DANEO: No. These are agreements that
7 are renegotiated after a certain amount of years.
8 I would like to distinguish the agreement in two. One
9 is agreement with sister company, Dalmine, that is
10 part of a strategic vision for the European continent
11 that was to integrate Silcotub and Dalmine, trying to
12 integrate the production of the two mills for the
13 local market. The other are long-term agreements with
14 a strategic customer, Petrom, that involved not local
15 amount, worldwide agreement. Tenaris already had a
16 worldwide agreement with OMV, the present owner of
17 Petrom. We are trying to expand these agreements also
18 regionally on Petrom and these are agreements that
19 cover different years. The target is to allocate part
20 of the production on long-going agreements that
21 guarantee a minimum coverage of the volumes.

22 I don't know if this is the answer that you
23 were looking for.

24 COMMISSIONER LANE: How much of your
25 production is not subject to some of these agreements?

1 MR. DANEEO: By mind, I am not able to tell
2 you a number. I could check and give you further
3 detail in the following meeting.

4 COMMISSIONER LANE: Okay. And I wasn't quite
5 sure that I understood, how much of these agreements
6 are with your sister companies?

7 MR. DANEEO: The three main agreement we have
8 which only one is presently running because we are
9 also forecasted agreement for which we already made
10 investment, we will make investment, the agreement
11 with sister company covers almost half of our
12 capacity. The detail of how much is the agreement
13 with our sister company is restricted and we will give
14 in separate moment, if I understood.

15 COMMISSIONER LANE: Okay. Thank you.

16 Mr. Chairman, that's all the questions
17 I have.

18 CHAIRMAN KOPLAN: Thank you, Commissioner.
19 Commissioner Pearson?

20 COMMISSIONER PEARSON: Ms. Noonan, you were
21 discussing cumulation earlier. In this situation, we
22 have these transnational corporate relationships that
23 we talked about a little bit earlier. Should that
24 influence how we analyze cumulation?

25 MR. NOONAN: No. And the reason I say that

1 is we already have an example with Tenaris where we
2 already see that their sister companies who are
3 capable of producing line pipe and who are producing
4 small diameter line pipe have free access to the U.S.
5 market. In fact, they're even closer than Romania,
6 they're in Mexico and Canada. They are not shipping
7 small diameter line pipe to the United States. So
8 I think that actions speak louder than words and you
9 can see that there is just not that kind of actin
10 being taken by Tenaris. Of course, the other sister
11 company is NKK in Japan and same situation, you do not
12 see the Mexican producer or the Canadian producer
13 shipping to the United States in the place of either
14 NKK or Silcotub.

15 COMMISSIONER PEARSON: Okay. So even though
16 there are now transnational relationships that did not
17 exist at the time of the original investigation, you
18 don't see that as a change that should factor into how
19 we would view cumulation? In other words, those
20 relationships don't suggest that that's factor that we
21 should consider in terms of whether something has
22 changed that might lead us to decumulate?

23 MR. REILLY: I think I'd like to take a
24 crack at that. I think that exactly those
25 relationships should lead you to decumulate.

1 COMMISSIONER PEARSON: That's just the
2 opposite of what Ms. Noonan just said, isn't it?

3 MR. REILLY: Well, let me get on it from an
4 economist point of view.

5 COMMISSIONER PEARSON: Okay.

6 MR. REILLY: My fee for legal advice is
7 quite low, so I never make any money doing it.

8 COMMISSIONER PEARSON: Okay.

9 MR. REILLY: You have a situation where
10 Tenaris now owns production facilities in Canada and
11 production facilities in Mexico that are far better
12 placed to serve the United States market than are
13 production facilities in Romania and it would be
14 illogical and economically backwards for them to
15 allocate production from Romania to the United States
16 rather than production from Mexico or Canada. Here,
17 I'm talking specifically about small diameter. So the
18 relationships that now exist make it highly improbable
19 that Tenaris would export product to the United States
20 from Romania. They have factories that are far better
21 situated to do and to make money doing it.

22 COMMISSIONER PEARSON: Mr. Reilly, I have to
23 confess that I find some humor in two economists
24 trying to discuss cumulation, which in my mind is one
25 of those issues that's much better suited to

1 attorneys, but I wade into it occasionally just to see
2 what mess I can make of it.

3 Any other comments on cumulation?

4 Mr. Gurley?

5 MR. GURLEY: I think maybe I won't say
6 anything so I won't make a third opinion on our panel.

7 COMMISSIONER PEARSON: Well, if you have an
8 opportunity, you might want to take counsel among
9 yourselves and decide what you would want to say about
10 this for the post-hearing because I'm just trying to
11 understand whether the fact that there's been a change
12 in the structure of the global industry such that
13 there's now more consolidation, more of these
14 transnational relationships, whether that's a factor
15 that somehow weighs into our consideration of
16 cumulation or decumulation.

17 MR. GURLEY: This morning, when I was
18 hearing these conversations about Tenaris and Mittal
19 being these beasts trying to gobble up market share,
20 I felt like I was in a Greenpeace convention, but I
21 note for the record that U.S. Steel is also a
22 multi-national company and so is V&M.

23 COMMISSIONER PEARSON: Did you have
24 something more, Mr. Reilly?

25 MR. REILLY: No, I'll wait for an economist

1 question.

2 COMMISSIONER PEARSON: Okay. With the
3 domestic industry, I raised the question of what
4 exactly had happened between 1999 and 2000 in terms of
5 the shift between subject and non-subject imports as
6 the orders went into effect and I thought I would give
7 you a chance to discuss that, too.

8 As you look at the record and with your
9 understanding of the industry, what was going on there
10 that produced what seems to me to be an above average
11 amount of shifting between subject and non-subject
12 imports in that transitional year?

13 MR. REILLY: I think what it shows is
14 something that really contradicts what the domestic
15 industry asserted this morning and that is that there
16 is a significant degree of fungibility between the
17 subject imports and the non-subject imports.

18 Non-subject imports in essence seamlessly
19 replaced subject imports, pun intended, and that can
20 only occur if there's significant fungibility between
21 subject and non-subject imports. That shift occurred
22 very rapidly and the domestic producers have taken the
23 position that the subject imports would displace
24 principally domestic product. I don't think so. I
25 think that the historical information shows that the

1 competition was principally between subject and
2 non-subject imports in the U.S. market and if subject
3 imports are removed they will go into foreign markets
4 and be replaced by other imports from non-subject
5 countries. And, in fact, all of the indicators that
6 I mentioned earlier in terms of the domestic industry
7 performance, many of them had to do with the over
8 replacement of subject imports by the non-subject
9 imports. Basically, what happened was that import
10 sources got shifted and the domestic industry did not
11 get help at all.

12 COMMISSIONER PEARSON: Okay. So you are
13 suggesting, then, that if the orders were revoked we
14 would see little or no change in the shipments of
15 product by the domestic industry, but that there may
16 be shifting back and forth among subject and
17 non-subject producers.

18 MR. REILLY: In this particular case, I
19 think conditions of competition today are somewhat
20 different from what they were in 2000 and that has to
21 do specifically with the ownership of the European
22 producers who are subject -- again, I'm picking on
23 small diameter -- and their strategies. I don't think
24 that there would be a significant increase in imports
25 from the subject countries were the orders to be

1 lifted because of current market conditions, but also
2 because of the strategic orientation of the foreign
3 producers.

4 I think that to the extent that that small
5 volume of imports would displace anything it would be
6 other non-subject imports.

7 COMMISSIONER PEARSON: And how confident are
8 you that the domestic industry wouldn't lose quite a
9 bit of market share as that transition goes on?
10 Because clearly that's their argument, as I understand
11 it, that they think they would lose a lot of market
12 share if subject imports were made non-subject by the
13 revoking of the order.

14 MR. REILLY: I'm quite confident that they
15 would not. If I wasn't, I wouldn't be here. For the
16 reasons I've already stated, there is very little, if
17 any, incentive for the producers in Czechoslovakia,
18 South Africa and Romania to significant increase their
19 imports of the subject small diameter pipes and tubes
20 to the U.S. market. Their strategic orientation is
21 regional and that includes Mittal and their
22 economically rational strategy is to focus on high
23 value products which are in strong demand.

24 COMMISSIONER PEARSON: So in essence you're
25 saying that if the orders are revoked the domestic

1 market for pipe in the United States kind of takes a
2 collective yawn and not much happens, things go
3 forward?

4 MR. REILLY: Correct. Correct. And that is
5 premised on the strong market conditions continuing
6 and all indications are that they will.

7 COMMISSIONER PEARSON: Okay. Mr. Daneo, let
8 me get to what I hope is my last question. Let me be
9 quick and maybe follow up in the post-hearing.

10 You had mentioned that Romania is scheduled
11 to join the E.U. in January of 2007 and certain that's
12 in the reasonably foreseeable future, so we should
13 think about what it means for this case. Are there
14 import duties in either direction between Romania and
15 the E.U. that will go away upon accession?

16 MR. DANEEO: Are there import duties for
17 Romania regarding seamless pipe?

18 COMMISSIONER PEARSON: Yes. Between Romania
19 and the E.U. in either direction.

20 MR. DANEEO: No. In this moment, I am not
21 aware of either, but I could check.

22 COMMISSIONER PEARSON: Okay. Because I would
23 assume that any existing duties would be removed upon
24 accession and so there could be some change in the
25 flow of product and potentially either into or out of

1 Romania, so I was just wanting to understand a little
2 bit more about that.

3 MR. DANEO: The duty would be for sure
4 removed after the accession. I don't know exactly,
5 but I am pretty sure that there are no other duties on
6 seamless products from Romania to Europe and, in any
7 case, not from Europe to Romania, but I will check it
8 and reconfirm.

9 COMMISSIONER PEARSON: Okay. Please clarify
10 in the post-hearing.

11 Thank you very much.

12 Mr. Chairman, I have no further questions.

13 CHAIRMAN KOPLAN: Thank you.

14 Commissioner Aranoff?

15 COMMISSIONER ARANOFF: Thank you,
16 Mr. Chairman.

17 I want to follow up on a few things. First,
18 there was testimony earlier that the South African
19 affiliate of Mittal has an exclusive distribution
20 arrangement that precludes it making any sales through
21 Mr. Allen's entity.

22 What I wanted to understand, Mr. Allen, is
23 does that distribution arrangement preclude them from
24 selling their product in the United States or just
25 preclude them from selling it through you?

1 MR. ALLEN: The latter. It's an exclusive
2 arrangement with a company called Max Steel and they
3 control the product from South Africa, no matter where
4 it goes, in my understanding.

5 COMMISSIONER ARANOFF: Okay. Now, of
6 course, that name rings a bell with me and I believe
7 that is an entity that does import various steel
8 products into the United States, so I guess it doesn't
9 really answer the question for me. It tells me that
10 you can't really tell me that much about the South
11 African producer, but it doesn't really tell me much
12 about what we can expect them to do in the U.S.
13 market.

14 MR. GURLEY: If I can just make this
15 observation, if you look at the South African import
16 share and market share running up to the filing of the
17 petition, it was always very low.

18 COMMISSIONER ARANOFF: Okay. We've heard a
19 lot of discussion back and forth this afternoon about
20 how it couldn't possibly make economic sense for
21 Romanian producers to send this subject to the United
22 States if the orders were revoked, particularly in
23 light of the Canadian and Mexican production
24 facilities that are affiliated with Tenaris, but I
25 understand from the record that there is currently

1 large diameter product coming into the United States
2 from Romania and so I guess my question is do those
3 plants in Canada and Mexico not make the large
4 diameter product or is something happening here that
5 doesn't make economic sense?

6 MR. GURLEY: I think there's two phenomenon
7 going on. The issue about Canada and Mexico dealt
8 exclusively with Tenaris and I don't believe Tenaris
9 is exporting from those facilities. There is some
10 amount of pipe coming in in large diameter, I believe,
11 from Mittal Steel Roman, but they don't have
12 facilities in Canada and Mexico, but it's a limited
13 amount.

14 COMMISSIONER ARANOFF: Okay. And my
15 understanding is that Mittal is also the origin of
16 large diameter SLP that's coming into the U.S. from
17 the Czech Republic.

18 MR. GURLEY: I believe that's correct.

19 COMMISSIONER ARANOFF: So Mr. Reilly's
20 argument that basically there's no economic sense to
21 shipping this product from somewhere that far away,
22 that applies to Tenaris within its family, but we
23 already see this happening with respect to Mittal, so
24 what conclusions can we draw in terms of whether there
25 are different conditions governing those sales of

1 large diameter product from these two Mittal
2 facilities to the U.S. versus what would happen with
3 the small diameter product?

4 COMMISSIONER ARANOFF: I think there was
5 never the allegation made that Mittal promises scout's
6 honor never to ship any pipe from its European
7 facilities. The argument made is that they have a lot
8 of other places they can sell as well. Yes, they have
9 shipped some large diameter pipe to the United States,
10 but it's been in modest amounts and our position has
11 been if the order were lifted they would ship to the
12 United States also some modest amounts.

13 COMMISSIONER ARANOFF: I appreciate that
14 answer.

15 MR. NOONAN: Commissioner Aranoff, could
16 I just clarify the record for Tenaris?

17 Actually, there is no large diameter line
18 pipe produced at Silcotub, if that helps.

19 COMMISSIONER ARANOFF: Okay. Thank you.
20 That is helpful.

21 We've also had some discussion this
22 afternoon about sort of the China issue writ large and
23 I know that the position of the panel that's here now
24 has been that that's a red herring and I just wanted
25 to pursue it a little bit more.

1 Mr. Daneo, you had indicated that your
2 company's regional focus includes a region that
3 extends at least as far as Kazakhstan, I thought I
4 heard you say, and so I guess my question to you is if
5 your regional strategy does in fact take you into
6 central Asia, are you running into competition with
7 China there? Do you sense that there is going to be a
8 problem with market displacement in that part of your
9 region?

10 MR. DANEEO: Well, my answer is no, first of
11 all, because the market in Kazakhstan, Tajikistan, the
12 other stan countries, are going to be developed.
13 American oil and gas companies are coming now, they
14 are starting drilling, Putin is not very happy for
15 this, and they will need pipes. So for the moment,
16 it's a developing market. Our oil and gas market is
17 the Romanian one and that's all.

18 China is not a problem because upgrading the
19 level of our products with higher trading systems,
20 product more specialized, higher quality, we make a
21 different kind of battle on a different kind of level
22 and that's why we try to avoid to confront
23 reallocating our production. So China in this moment
24 is not a present risk in Romania and in Europe
25 represents the imports from China in 2005 were around

1 4 percent of the total imports, seamless, not only
2 concerned product, so China is absolutely not a risk.

3 COMMISSIONER ARANOFF: Okay. So if
4 I understand you, what you're telling me is you are
5 exploring these as new markets you want to expand into
6 in central Asia, you don't see China as competition
7 there because you make a higher quality product.

8 MR. DANEEO: Yes.

9 COMMISSIONER ARANOFF: And you're looking
10 for business from American and European oil companies
11 that are going to be or are investing in the region.
12 I understand that answer and it takes me full circle
13 back to what I was asking in the first round, which is
14 if your product is good enough to get on approved
15 lists for these oil companies for these deals that are
16 going on in central Asia, why can't that happen in the
17 United States?

18 MR. DANEEO: We are talking OCTG in central
19 Asia because a company will drill so they will need
20 tubing, which is one of the main products of Silcotub.
21 Approved vendor list for line pipe in America,
22 Silcotub is not present as a mill and we have no plan
23 to be certified for a product which prices, as I told
24 you, is not so interesting to -- how I can say in
25 English -- to demonstrate the effort of all the

1 process of certification for these products.

2 MR. GURLEY: I just want to also
3 re-emphasize that let's assume there's a new president
4 at Tenaris tomorrow and he says I really want to get
5 our pipe certified in the United States. It takes
6 several years, as far as I understand, and Mr. Allen
7 testified to that, so at least for the reasonably
8 foreseeable future, even if they changed their mind
9 tomorrow, it doesn't matter, they're not going to be
10 able to have access to these big energy companies.

11 COMMISSIONER ARANOFF: Okay. I appreciate
12 those answers.

13 I think that we've talked about this a
14 little bit or you've discussed it with some of my
15 colleagues, but just to make sure that I understand,
16 in Silcotub's brief and again here today you talk
17 about the strength of the Romanian domestic market,
18 but, as you know, our confidential pre-hearing report
19 indicates that the share of Romanian domestic
20 shipments over the period that we're reviewing has
21 actually declined by a pretty decent amount and our
22 data show that the Romanian has become more export
23 oriented overall. So while I understand the testimony
24 that there is a regional strategy which includes
25 Romania and also other places in Europe and perhaps

1 Asia, there was also an argument about the strengths
2 of the Romanian market which doesn't appear to be
3 consistent with our record.

4 Is there anything that you can add?

5 MR. DANE0: No, but for the future, our
6 regional market goes mainly from Turkey up to Austria
7 because then we are talking about western Europe and
8 up to Kazakhstan where the sales are not so exciting.
9 The Romanian market is booming because Romania is a
10 developing country. They are building houses, they
11 need pipes for gas and water. They are revamping all
12 the energy plants, they need pipes. They are
13 revamping the wells, they need pipes. So Romania is a
14 country with a great potentiality and we understood
15 this luckily two years ago. That's why we went to be
16 there.

17 To complete what I said to Commissioner
18 Pearson, Romania was a closed market up to two years
19 ago to any foreign company because big contracts in
20 Romania were paid with barter. Companies were paying
21 pipes with barrels of oil or bonuses for electric
22 energy. They couldn't be exported. So no foreign
23 importer could come to Romania. It was a tight
24 market. We bought a mill to be in this market. Now,
25 it's open and everything is changed, but it's an

1 important market where we have an important presence
2 that we want to develop. This is one of the main
3 lines of our strategy for sure.

4 COMMISSIONER ARANOFF: Thank you very much,
5 Mr. Daneo.

6 Ms. Noonan and Mr. Gurley, I would just
7 invite you to look back at those pages of Silcotub's
8 brief in your post-hearing, that's pages 6 and 13, and
9 compare it to the data that we have and see if there's
10 any other explanation that you would have for us.

11 MR. GURLEY: We will do that.

12 COMMISSIONER ARANOFF: Thank you very much.

13 Thank you, Mr. Chairman.

14 CHAIRMAN KOPLAN: Thank you.

15 As the questions are asked, my questions are
16 slipping away until I've got one left.

17 Mr. Reilly, I asked the domestic producers
18 this morning if they would provide supporting data
19 covering the review period comparing prices in the
20 U.S. to prices in other major markets for small
21 diameter CASSLP pipe and it's my understanding that
22 there is a publication out there but I can't identify
23 it because it's confidential. You know what I'm
24 talking about, though, I think.

25 MR. GURLEY: Yes, I do and we'll do our best

1 to provide it.

2 CHAIRMAN KOPLAN: Because what I wondered is
3 if you would do that for me post-hearing.

4 I'm trying to determine whether subject
5 producers would have an incentive to shift product to
6 the U.S. market if the orders are revoked and this
7 would be helpful to me, if you could come up with some
8 of that information or as much as you can come up
9 with.

10 I also asked them whether there's some level
11 of premium available to them as to availability or
12 reliability of delivery or any other factor that we
13 should take into account when comparing prices for
14 domestic pipe to prices for subject imports in the
15 U.S. market. My recollection is you touched on this
16 earlier, but I'm wondering if there's any way to
17 quantify it other than the allegation.

18 MR. REILLY: I'll look into that and we'll
19 address it in the post-hearing brief.

20 CHAIRMAN KOPLAN: Okay. I'd appreciate
21 that. And then I have one request post-hearing.

22 I might have included you when I asked this
23 this morning, Mr. Gurley, but I want to make sure that
24 I don't leave you out, and that is I would also like
25 you to provide me your analysis of what the bounds of

1 bracketing are for purposes of the pre-hearing brief
2 as you understand it for purposes of these
3 investigations. Would you do that?

4 MR. GURLEY: I will do that.

5 CHAIRMAN KOPLAN: Thank you.

6 With that, I have no further questions and
7 I want to thank you for your answers to my questions
8 and I'll turn to Vice Chairman Okun.

9 VICE CHAIRMAN OKUN: Thank you.

10 Mr. Allen, I want to go back to you just on
11 the certification issue and I think Mr. Gurley in
12 saying how long it took to be certified. I guess what
13 I would invite you to do is if you have information
14 that is contrary to what we have in the staff report,
15 because if I read the staff report on the purchasers
16 who supplied information, they talk about the
17 certification requirements, very few people having met
18 it or very few companies and in terms of the time the
19 responses -- two days to one year, one to three
20 months, they weren't as long as what I just heard you
21 saying and so I want to make sure that if there is
22 information that you have with respect to trying to
23 qualify with a purchaser you put that in the record.

24 MR. GURLEY: We will do that.

25 VICE CHAIRMAN OKUN: Okay. I appreciate

1 that.

2 Then just there's been a lot of conversation
3 about the competition between non-subjects and so
4 I won't spend too much time on that, but I did want to
5 have the opportunity to ask you, Mr. Reilly, you
6 talked a lot about small diameter and I understand
7 with the people sitting at this table that that's the
8 easiest thing to do, but I wanted to see if you think
9 your arguments apply equally to the large diameter.

10 One of the conversations we had this morning
11 with Mr. Schagrin was with respect to Japan and Mexico
12 being big players in the tubular products and, in
13 particular, in large diameter, to the extent there are
14 products that are coming on line in natural gas, there
15 are a lot of them in the Gulf of Mexico, why shouldn't
16 I expect that the domestic industry would be competing
17 mostly against increased product from those two
18 countries as opposed to the non-subject product?

19 MR. REILLY: I have paid absolutely no
20 attention to large diameter pipe because the scope of
21 our activities was limited to small diameter pipe, so
22 I'm hesitant to really say anything about the market
23 for large diameter at this point.

24 VICE CHAIRMAN OKUN: Okay. I appreciate
25 that. I just wanted to make sure that we were clear

1 on whether there was a broader response or not.

2 And then for both counsel, I would ask you
3 to comment on some of the conversation we were having
4 with Petitioners' counsel with regard to what impact
5 non-responsiveness of producers should have and how we
6 should take it into account. There were questions
7 asked about whether it matters for cumulation, whether
8 it could only be taken into account with regard to
9 non-discernable adverse impact and I would be curious
10 to have you comment on it here and then also anything
11 for post-hearing as well.

12 Mr. Gurley?

13 MR. GURLEY: Yes, of course, we'll put it in
14 post-hearing. The typical response we're going to
15 have, which is going to be of course we don't want to
16 be punished because somebody else did not provide
17 information. Certainly with respect to Japan, which
18 was one of the major players earlier, it's not our
19 fault they didn't play. Certainly everybody here
20 participated and with respect to Romania, you have the
21 two key players participating. With respect to the
22 Czech Republic, the key player participated. All the
23 people who were involved in the original investigation
24 are back here today to participate from our side.

25 So whatever the commission does with respect

1 to deciding what they do with Japan, it shouldn't
2 adversely impact us, but we'll give a more complete
3 response in our post-hearing brief.

4 VICE CHAIRMAN OKUN: Ms. Noonan, did you
5 want to add something?

6 MR. NOONAN: Yes, if I may. The commission
7 addressed this point in their brass sheet sunset
8 review decision where it said authorization for
9 adverse facts does not relieve the commission of its
10 obligation to consider the record evidence as a whole
11 in making its determination. I think that goes to
12 exactly the statutory mandate of this whole process.
13 The statute mandates that there is a sunset review,
14 that the commission will conduct a review, whereas at
15 the DOC, we see in the statute that if interested
16 parties don't respond to the notice of initiation the
17 order is revoked. That's it, that's the end of it.

18 Where foreign parties don't respond, there
19 is not a presumption that the order stays in place.
20 You still have your investigation, which is exactly
21 what you are doing.

22 I would like to point out there has been at
23 least one case that I am unfortunately intimately
24 familiar with where the domestic industry did show up
25 very strongly, the foreign industry didn't submit one

1 questionnaire response or appear and the commission
2 did actually revoke the order, so I think that goes to
3 the strength of actually your independence in these
4 proceedings.

5 VICE CHAIRMAN OKUN: I appreciate those
6 comments and I'll look forward to the information for
7 post-hearing as well.

8 I think I've covered everything. Just for
9 completeness of the record on post-hearing, for
10 Petitioners' counsel, on the question with regard to
11 whether there is allocation or controlled entry for
12 the distributors who are specific domestic
13 distributors, as I understand the conversation that
14 Mr. Allen had with the chairman, whether that was with
15 regard to OCTG, just for completeness, if the counsel
16 for producers can also comment on what we heard from
17 Mr. Allen, I would appreciate that.

18 With that, I don't think I have any other
19 questions, Mr. Chairman.

20 CHAIRMAN KOPLAN: Thank you, Commissioner.
21 Commissioner Hillman?

22 COMMISSIONER HILLMAN: Thank you. I hope
23 just a couple of quick follow-ups.

24 Mr. Gurley, if I could ask as a follow-up to
25 the questions that you were talking with Commissioner

1 Aranoff about and this issue of the Tenaris group and
2 what we should make of the fact that they have not
3 shipped small diameter pipe from Canada or Mexico, to
4 the extent that members of the Tenaris group have
5 shipped large diameter seamless pipe, I wondered if
6 you could at least help us understand how significant
7 those shipments were.

8 You commented they were small, et cetera.
9 at least that I know, we're not likely to have that
10 data. We'll have broad import data, but we will not
11 necessarily be able to discern whether it came from a
12 Tenaris related company. So if there is anything that
13 you can put on the record in terms of Tenaris group
14 shipments of large diameter product coming into the
15 U.S. market.

16 MR. GURLEY: I will do that. I think
17 Mr. Daneo tried to clarify that at least with respect
18 to Silcotub they're not making large diameter pipe.

19 COMMISSIONER HILLMAN: I'm hoping this is
20 not a large request because --

21 MR. GURLEY: No, it's a simple request.

22 COMMISSIONER HILLMAN: It could be coming
23 from --

24 MR. GURLEY: Understood.

25 COMMISSIONER HILLMAN: I appreciate that.

1 Secondly, if I could go to the issue of
2 product shifting; first, it's more of a factual
3 question.

4 Mr. Daneo, you've made it very clear that
5 the focus for you is on OCTG and you regard that as a
6 higher value product. I'm just trying to make sure
7 I square that with the testimony that we heard this
8 morning, at least from Mr. Clark that while in general
9 OCTG may be sold at a higher price that there are
10 certainly products within the subject product of
11 standard, line and pressure pipe that would be because
12 of their cost basis actually more profitable, a higher
13 value sale than OCTG.

14 First, I just want to make sure, Mr. Daneo,
15 it's your sense whether that is or is not ever the
16 case, that there would be higher value, more
17 profitable from a production standpoint, sales and
18 production standpoint, than OCTG.

19 MR. DANE0: This is almost a technical
20 question. I hope not to say wrong things. It depends
21 on the kind of line pipe. In certain cases, heat-
22 treated and ultra-tested line pipe requires a kind of
23 operation that can be comparable to a low-level OCTG.
24 It's not the case of the product we're doing. We are
25 investing on a high-handle OCTG, not comp.-based OCTG,

1 with premium threading, with -- threading systems, in
2 order to be closer to our clients. In general, OCTG
3 is incredibly higher in price than standard line
4 pipes.

5 COMMISSIONER HILLMAN: I appreciate that.

6 Then, lastly, I had some discussion with
7 Petitioners on this issue of the Siderca decision of
8 the CIT, which came down in June of 2005, that
9 discusses this issue of product shifting, and to the
10 extent there's any arguments about what the Commission
11 can or cannot presume in terms of product shifting
12 between OCTG versus subject product and whether we
13 have the requisite information or not.

14 I would ask you, in your post-hearing, to
15 take a look at that Siderca opinion. It's a slip op.
16 that came out as a Judge Pope determination in the
17 Argentine case that very specifically addresses what
18 do we need to be able to show to make any presumptions
19 about whether companies would or would not engage in
20 product shifting in order to ship into the U.S.
21 market, whether you think we have those facts on this
22 record or not and what you would argue how we should
23 read the Siderca opinion in terms of looking at this
24 argument of product shifting.

25 MR. GURLEY: We will do that.

1 COMMISSIONER HILLMAN: Okay. Thank you.
2 And with that, I have no further questions, but thank
3 you very much for your appearance this afternoon.

4 CHAIRMAN KOPLAN: Thank you, Commissioner.
5 Let me see if there is another round from the dais.
6 It appears not.

7 Mr. Cassise, does the staff have questions
8 of this panel?

9 MR. CASSISE: Mr. Chairman, the staff has no
10 questions.

11 CHAIRMAN KOPLAN: Thank you.

12 Counsel for the domestics, do you have any
13 questions of this panel before they are released?

14 MR. SCHAGRIN: Mr. Chairman, there are no
15 questions from counsel for the domestic parties for
16 this panel.

17 CHAIRMAN KOPLAN: Thank you. This panel may
18 step down, and we'll turn to rebuttal and closing.

19 While you're moving away from the table, let
20 me summarize the amount of time left for both sides.
21 Those in support have 10 minutes remaining from their
22 direct presentation and five minutes for closing.
23 Those in opposition have 12 minutes remaining from
24 their direct presentation for rebuttal and five
25 minutes for closing.

1 Let me ask both sides if they have need to
2 use their rebuttal time before going to closing.

3 MR. VAUGHN: Chairman Koplan, we will just
4 combine our rebuttal and our closing.

5 CHAIRMAN KOPLAN: Well, we do that
6 separately, though. Are you going to simply use your
7 five minutes for your closing remarks, or do you need
8 time for rebuttal?

9 MR. VAUGHN: We would like to take 10
10 minutes for the closing.

11 CHAIRMAN KOPLAN: They get to hear your
12 rebuttal before they do theirs, so you can't do that.

13 MR. GURLEY: I have no objection.

14 CHAIRMAN KOPLAN: Excuse me? You have no
15 objection? And what about yourself, Mr. Gurley?
16 You'll just have a closing. All right.

17 So the total amount we're clocking on you is
18 what, 10 minutes? I wasn't clear on that.

19 MR. VAUGHN: Ten minutes will be fine.

20 CHAIRMAN KOPLAN: Ten minutes total.

21 MR. VAUGHN: Yes.

22 CHAIRMAN KOPLAN: All right. You may
23 proceed.

24 MR. VAUGHN: Members of the Commission,
25 Stephen Vaughn for the domestic producers, U.S. Steel

1 and Koppel Steel. I just want to make a few points
2 here at the end of what's been a fairly long day.

3 To begin with, you will rarely see a
4 stronger case in a five-year review with respect to
5 likely volume. We haven't been able to talk a lot
6 today about unused capacity because so much of the
7 data is confidential, but I urge the Commission to
8 look at the data regarding unused capacity in each of
9 the subject countries. I also urge you to look at the
10 record data concerning the extent to which the subject
11 producers export their SLP and also the extent to
12 which they export to markets other than Europe.

13 Furthermore, we have shown that these exact
14 companies are already active in this market. They
15 have sales teams here. They have customers here.
16 They have channels of distribution here. Plus you had
17 testimony from some of the largest purchasers in the
18 United States who came here and told you they expect
19 these people to come here in significant volumes and
20 that they will buy from the producers.

21 All of the various aspects, every factor
22 that you're supposed to consider with respect to
23 likely volume, strongly support a finding that the
24 volume, both with respect to small-diameter SLP and
25 with respect to large-diameter, will be significant.

1 Now, once that happens, you will see a price
2 effect, and you will see an impact on the domestic
3 industry. We have heard this morning and throughout
4 the day questions about given the fact that there are
5 already imports in the market, why haven't prices
6 fallen already? But you heard the testimony. The
7 imports that are already in the market are having an
8 impact on the domestic industry. They have already
9 lost volume as a result of these imports.

10 Distributors told you this morning that some
11 of the nonsubject producers are starting to cut their
12 prices, and now what you're talking about is taking a
13 large volume of new imports, pouring it into this
14 market, and having a real paradigm shift within a very
15 brief period of time, imports from countries that are
16 highly qualified, that are well known in this market,
17 that compete across the board with the domestic
18 industry. Once that happens, the consequences for the
19 domestic producers will be severe.

20 There was a lot of talk this afternoon about
21 you look at one or two years of data, and you start
22 comparing these companies to Microsoft; this is a
23 simplistic analysis. In a five-year review like this,
24 you can't look just at what a company has done at the
25 peak of one period of demand and use that to

1 extrapolate whether that industry is vulnerable or
2 would be harmed by imports. You have to look at the
3 history of the industry, and when you do, you will see
4 that this industry has had a number of difficult years
5 and is still trying to recover from the injury it
6 suffered six years ago.

7 Then also with respect to impact and price
8 effect, consider the record you have here with respect
9 to the purchasers. You had three purchasers who
10 testified this afternoon. You have extensive comments
11 from purchasers in your APO staff report. We urge you
12 to look at that testimony and take it seriously.
13 These are people who are familiar with this market.
14 They buy and deal with these companies every day.
15 They deal with the domestic industry. You have a
16 remarkable consensus here with respect to what's going
17 to happen in this market.

18 So that's the evidence that you have with
19 respect to what producers think is going to happen and
20 with respect to what purchasers think is going to
21 happen.

22 What about with respect to the foreign
23 producers? Well, throughout the whole day, we've seen
24 repeatedly how your efforts to analysis both of these
25 industries have been hindered by the lack of

1 responsiveness from the subject producers. How much
2 excess capacity do they have? Well, our knowledge is
3 limited because of the lack of data. What are the
4 AUVs that they receive for their exports around the
5 world? Once again, our knowledge is limited.

6 The Respondents say that they have 800,000
7 tons of exports in Japan. How much of that is subject
8 product? What's it being sold for around the world?
9 Again, your knowledge is necessarily limited.

10 As far as the large-diameter orders, you
11 didn't have the chance to question a single witness
12 from the other side with respect to that industry.

13 We respectfully submit that under these
14 circumstances, the Commission should exercise its
15 power to draw adverse inferences. That is the
16 statutory power that Congress has given you, and it is
17 the appropriate response to this type of a situation.
18 Failure to do so will place domestic producers at
19 extreme disadvantage not only here but in future
20 investigations.

21 We thank the Commission for its time and
22 attention today.

23 MR. SCHAGRIN: Mr. Chairman, members of the
24 Commission, Roger Schagrin on behalf of V&M Star, and
25 I will, of course, address only large diameter. I

1 wanted to do this as part of closing because I think
2 it's a little unfair to use rebuttal time when, in
3 fact, in the part of the case I was on there is
4 nothing to rebut: no briefs, no argument today.

5 But I did want to, in closing, address a
6 couple of arguments because you are looking for how to
7 fill in the record as to Japan, which is sorely
8 missing, and Mr. Reilly gave you data from the Japan
9 Iron and Steel Federation and said you can utilize
10 this to demonstrate that they wouldn't shift into
11 seamless line pipe exports to the United States.

12 I would say, first, to me, there are some
13 interesting things about this data. The ordinary
14 steel production reported for Japan is about the same.
15 In fact, it's even less than the reported ordinary
16 steel exports from Japan, which would show that Japan
17 is exporting 100 percent of the seamless carbon
18 products that they are making.

19 We know it's an export-oriented industry. I
20 thought that they would at least be using seamless
21 mechanical for their automotive industry. But with
22 exports in the 800,000-ton range of seamless carbon
23 products across a range of products, if only 10
24 percent of that was shifted to the United States, that
25 would cause serious price and volume effects in the

1 U.S. market.

2 The panel before said you don't have to
3 worry about China. China is a red herring in this
4 case. With that, I could not disagree more. China
5 now has on this record and in fact the largest
6 seamless pipe industry in the entire world. Nearly
7 half of all seamless pipe produced in the world is
8 made in China. The amount of overcapacity in the
9 Chinese industry is monumental. They are adding three
10 or four new, gigantic, seamless pipe mills in China.
11 By the end of this decade, maybe within two or three
12 years, China might account for two-thirds of all world
13 seamless pipe production. It is already coming into
14 the United States.

15 Now, we argued this morning that there are
16 some differences in the marketplace. There are some
17 differences between the Japanese and Mexican companies
18 and nonsubject imports, particularly as to being on
19 the Dow Exxon list or these approved-manufacturer
20 lists. It's important that Chinese mills aren't just
21 sitting back.

22 At the present time, several Chinese
23 seamless pipe mills are trying to become qualified on
24 the Dow Exxon list. In fact, a couple of weeks ago,
25 one of them had the inspection process done in China

1 at the Tianjan mill. Within a short matter of time,
2 we will have Chinese mills that are qualified mills,
3 and those Chinese mills would be competing with
4 Japanese and Mexican mills if these are sunset.

5 You had comments by the previous panel
6 saying, well, you can tell Tenaris is not that
7 interested in the market in the United States because
8 they haven't shifted exports for TAMSA from large-
9 diameter to small diameter. Well, the fact is TAMSA
10 doesn't make subject small-diameter pipe. There mill
11 is a lot like the V&M Star mill; it starts at the
12 large-diameter range. They are not a producer of
13 small diameter. So you can't draw any beneficial
14 inferences from the fact that TAMSA has not shipped
15 small diameter after they were cut out of the large-
16 diameter market because of the dumping order going
17 into effect.

18 There were comments by Mr. Allen before,
19 even though he wasn't really talking about large
20 diameter, that the U.S. mills have put their customers
21 on allocation. Well, as to V&M Star, in early 2004,
22 like virtually all U.S. steel products, V&M Star acted
23 to discourage hedge buying by distributors. Since
24 that time, there have been no supply issues at all.
25 There is no evidence of the U.S. market being

1 undersupplied. In fact, there is a lot of evidence of
2 potential oversupply, and we can tell that V&M Star is
3 concerned about oversupply in the U.S. market. They
4 haven't had any price increases on any large-diameter
5 seamless pipe products in almost a year, and they are
6 concerned in the current market about oversupply and
7 potential declining prices.

8 If these orders are sunset, large volumes of
9 product from Mexico and Japan are going to be shifted
10 from other export markets to the U.S. market. We'll
11 provide that data for you, Mr. Chairman, in our post-
12 hearing. The Commission will see that other export
13 market prices are far lower than the U.S. market.
14 We'll have that product shifting. It will depress
15 U.S. prices and lead to a recurrence of injury.

16 We urge you to make affirmative
17 determinations, and we'll have no rebuttal. Thank you
18 very much. You were very patient today. Good-bye.

19 CHAIRMAN KOPLAN: Mr. Gurley?

20 MR. GURLEY: I think I may be confused. Was
21 that rebuttal or closing or both?

22 CHAIRMAN KOPLAN: Yes. Maybe I am, too.
23 Madam Secretary?

24 MS. ABBOTT: Mr. Vaughn used five minutes
25 for his rebuttal. Mr. Vaughn used five minutes, and

1 Mr. Schagrín used five minutes.

2 CHAIRMAN KOPLAN: And Mr. Schagrín used five
3 minutes. Thank you. Go ahead, Mr. Gurley.

4 MR. GURLEY: So that means I can speak
5 without fear of contradiction now?

6 CHAIRMAN KOPLAN: You can speak.

7 MR. GURLEY: I'll just mention a few points
8 here. One, I think that U.S. Steel and Koppel are
9 trying to have you focus on the data that's missing
10 because the data that's out there is very unappealing
11 for them. If ever there was a case that deserved to
12 be a sunset, this is it. We have never seen such
13 magnificent profitability data, and they know that, so
14 they want you to be adverse with what's not out there
15 because what they have is not particularly conducive
16 to a continuation of the order.

17 I want to speak directly about Mr.
18 Schagrín's comment that the TAMSA plant in Mexico does
19 not make small-diameter pipe. We confirmed again from
20 the officials from Tenaris that, in fact, that is not
21 a correct statement. TAMSA does make small-diameter
22 pipe. We will be providing a catalog showing that. I
23 repeat, TAMSA and the Tenaris facility in Canada both
24 make small-diameter pipe. They have shipped zero,
25 even though they had the opportunity to do so.

1 This buttresses completely Mr. Daneo's
2 comment that Silcotube and the Tenaris Group's vision
3 is not to be focusing on the line pipe market.

4 With respect to the Mittal Group, yes, there
5 have been some small shipments to the United States,
6 but it's been relatively modest, and if you talk about
7 the capacity that they will be is out there, they have
8 acted very responsibly with respect to large-diameter
9 pipe or OCTG.

10 They focus also as well on the fact that the
11 U.S. Steel witnesses said that they, of course, would
12 fear an onslaught of imports should the orders go
13 away. Well, they said that the prices would
14 dramatically drop, but there's already plenty of
15 imports out there, and many of these imports are at
16 dramatically lower prices than those being sold by
17 U.S. Steel and Koppel.

18 I don't understand what the difference is.
19 If there's already low-priced imports now, and they
20 can maintain these large profit margins, what's going
21 to change if there's 2,000 tons coming in from the now
22 subject countries?

23 Finally, in my brief I pose three questions,
24 basically saying in a sunset review you have different
25 fact patterns. This is the best one certainly I've

1 been presented with, so I pose the question, if not
2 now, when will there ever be a revocation in this
3 industry? When has the Commission last seen such
4 astronomic operating profits for a segment of the U.S.
5 steel industry?

6 When has the Commission last encountered
7 conditions of competition driven by energy prices so
8 favorable to a segment of the U.S. steel industry, and
9 when has the Commission been last presented with the
10 virtual certainty, as much as we can have, as
11 predicted by the Department of Energy, that these
12 favorable conditions will continue for the reasonably
13 foreseeable future?

14 The answer to these questions is never.
15 This is the best case I've seen. These are the
16 highest profits I've ever seen in a steel case. Maybe
17 you've seen higher. But if ever there was an
18 opportunity to revoke an order, this would be that
19 chance. If you tell us you're not going to revoke
20 now, we can assume it will never be revoked. Thank
21 you very much.

22 CHAIRMAN KOPLAN: Thank you. I want to
23 thank everyone who participated. I also want to thank
24 the staff for its assistance in this investigation.

25 Post-hearing briefs, statements responsive

1 to questions and requests of the Commission, and
2 corrections to the transcript must be filed by March
3 13, 2006. Closing of the record and final release of
4 data to parties is March 31, 2006, and final comments
5 are due April 4, 2006. And with that, this hearing is
6 adjourned.

7 (Whereupon, at 5:34 p.m., the hearing in the
8 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Carbon and Alloy
INVESTIGATION NO.: 731-TA-846
HEARING DATE: March 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.

DATE: March 2, 2006

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

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

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter