



## THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of: )  
 )  
 CIRCULAR WELDED NON-ALLOY ) Investigation No.:  
 STEEL PIPE FROM CHINA ) TA-421-6

Friday,  
 September 16, 2005

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

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

## APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

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



## APPEARANCES (continued):

In Support of Relief:

On behalf of Allied Tube and Conduit Corp., IPSCO Tubulars, Inc.; Maruichi American Corp., Maverick Tube Corp., Sharon Tube Company, Western Tube and Conduit Corp., Wheatland Tube Company, The United Steelworkers:

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 SCOTT BARNES, Vice President, Commercial, IPSCO Tubulars, Inc.  
 PAUL VIVIAN, Marketing Manager, Energy Products, Maverick Tube Corp.  
 NEAL LUX, Marketing Manager, Line and Standard Pipe, Maverick Tube Corp.  
 WILLIAM PERRINE, President and CEO, Sharon Tube Corp.  
 GORO TERAQ, President and CEO, Western Tube and Conduit Corp.  
 DON FINN, Vice President, Sales, Western Tube and Conduit Corp.  
 PETER DOONER, President, Wheatland Tube Company  
 MARK MAGNO, Vice President, Sales and Marketing, Wheatland Tube Company  
 TOM CONWAY, International Vice President, United Steelworkers  
 DONALD STRITTMATTER, President, Ideal Supply  
 TIM MILLER, Vice President, Supply Chain Management, Master Halco  
 JOHN THOMPSON, Director, Planning and Procurement, Merchant Metals Division of MMI  
 HARRY PAGE, President and CEO, Wheeling Pittsburgh Steel Corp.  
 PAT TATOM, President, WCI Steel  
 JOHN NOLAN, Vice President, Sales and Marketing, Steel Dynamics, Inc.  
 SAM COMMELLA, Vice President and General Manager, Nucor Steel Arkansas  
 ROBERT BLECKER, Economist, Schagrin Associates; and Professor of Economics, American University

## Of Counsel:

ROGER B. SCHAGRIN  
 Schagrin Associates, Washington, D.C.

## APPEARANCES (continued):

In Opposition to Relief:On behalf of CCCMC, Certain Chinese Producers:

THOMAS J. PRUSA, Economist, Rutgers University

Of Counsel:

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DANIEL L. PORTER, Esquire  
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Washington, D.C.On behalf of MAN Ferrostaal, Inc.:

JERRY COIBION, Sales Manager, MAN Ferrostaal, Inc.

Of Counsel:

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P R O C E E D I N G S

(9:30 a.m.)

1  
2  
3 CHAIRMAN KOPLAN: Good morning. On behalf  
4 of the United States International Trade Commission, I  
5 welcome you to this hearing in Investigation No.  
6 TA-421-6, Circular Welded Non-Alloy Steel Pipe from  
7 China. The Commission instituted this investigation  
8 under Section 421(b) of the Trade Act of 1974 to  
9 determine whether circular welded, non-alloy pipe from  
10 China was being imported into the United States in  
11 such increased quantities or under such conditions as  
12 to cause, or threaten to cause, market disruption to  
13 the domestic producers of like or directly competitive  
14 products.

15 Schedules setting forth the presentations at  
16 this hearing and testimony of witnesses are available  
17 at the secretary's desk. Please give all written  
18 testimony to the secretary. Do not place testimony  
19 directly on the public distribution table.

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

25 All witnesses must be sworn in by the

1 secretary before presenting testimony.

2 Finally, if you will be submitting documents  
3 that contain information you wish treated as business-  
4 confidential, your request should comply with  
5 Commission Rule 201.6.

6 Madam Secretary, are there any preliminary  
7 matters?

8 MS. ABBOTT: No, Mr. Chairman.

9 CHAIRMAN KOPLAN: Let us proceed with our  
10 first congressional witness.

11 MS. ABBOTT: Our first speaker will be the  
12 Honorable Arlen Specter, United States Senator,  
13 Pennsylvania.

14 CHAIRMAN KOPLAN: Welcome, Mr. Chairman. I  
15 think your microphone is not on. That's it.

16 SENATOR SPECTER: Thank you very much, Mr.  
17 Chairman. It's a pleasure to appear again before the  
18 distinguished International Trade Commission. I want  
19 to thank you for conducting this hearing with a view  
20 to affording very much needed relief in the standard  
21 pipe line, and on the personal level, thank you for  
22 scheduling this hearing so that I could be taken away  
23 from the Roberts hearings, something that I appreciate  
24 doing.

25 CHAIRMAN KOPLAN: Any time, Senator.

1           SENATOR SPECTER: I am glad not to be the  
2 chairman, and I know the time is limited to five  
3 minutes, and I see your light. I had much bigger  
4 lights. They didn't do me much good.

5           CHAIRMAN KOPLAN: Actually, you have no time  
6 limit.

7           SENATOR SPECTER: I have no time limit?

8           CHAIRMAN KOPLAN: You have no time limit.

9           SENATOR SPECTER: Well, good. Will you  
10 cancel my 11 o'clock appointment?

11          CHAIRMAN KOPLAN: (Laughter.)

12          SENATOR SPECTER: This issue is one of  
13 enormous importance to the standard pipe producers.  
14 It is being brought under Section 421. Seven  
15 producers filed the petition in August. Three of them  
16 are from my state, -- Allied, Sharon, and Wheatland --  
17 employing some 1,500 people out of the approximately  
18 2,500 workers nationwide and accounting for  
19 approximately 57 percent of the domestic standard pipe  
20 production.

21                 As you know, but it's always worth  
22 repeating, to go back to the statute, the ITC has to  
23 determine "whether products of China are being  
24 imported into the United States in such increased  
25 quantities or under such conditions as to cause, or

1 threaten to cause, market disruption to the domestic  
2 producers of like or directly competitive products."

3 This provision was inserted as a protective  
4 measure when unique status was granted to China under  
5 legislation which was enacted. I voted against it.  
6 The vote in the Senate was 85 to 15, and it seemed to  
7 me that based upon the record that China had, that  
8 normal relations could not exist because they simply  
9 do not observe the law. And there are many, many  
10 instances of that which are well known, but focusing  
11 specifically on the issue at hand on the standard pipe  
12 with respect to the increased imports from China, from  
13 the year 2002 to 2004, there was an increase of  
14 imports by 256,000 times, or 2,600 percent, 26 times  
15 the prior amount.

16 In 2002, standard pipe imports from China  
17 constituted less than one-half percent of the U.S.  
18 market, .04 percent. In 2004, the portion of Chinese  
19 imports had grown to more than 10 percent, 10.3  
20 percent, of the U.S. market, and these trends are  
21 increasing this year.

22 The domestic market has been hurt very, very  
23 substantially here. Production fell by nearly 175,000  
24 tons, or 29 percent, in the second half of 2004 as  
25 compared to the first half. The average number of

1 workers in the industry declined by 18.1 percent, and  
2 wages fell by 17.9 percent. Wheatland has laid off  
3 approximately one-fourth of its workforce, and Sharon  
4 has laid off one-third. So it's been a very, very  
5 serious situation.

6 The request here is that the ITC recommend  
7 to the president a quota on imports from China at a  
8 maximum level of 90,000 tons annually for a period of  
9 five years with a 5 percent increase each year to  
10 allow for some flexibility.

11 As the Commission well knows, the statute  
12 requires the Commission to consider three factors:  
13 the volume of imports, and I think the case is very,  
14 very impressive; effects of imports on domestic prices  
15 in the United States, and I would submit to the  
16 Commission that the case is conclusive; and, third,  
17 the effects of imports on the domestic industry, it is  
18 very, very strong.

19 I note that of the five petitions already  
20 filed under 421, that none has been granted, and,  
21 frankly, that concerns me. If we are, in  
22 international trade, to give special consideration to  
23 China, and we built into the statute safeguards where  
24 their conduct is excessive and unfair, it seems to me  
25 that that ought to be very, very strictly construed.

1           I know the pressure is on the Commission. I  
2 know you have a long list. We had 31 witnesses come  
3 in yesterday after Judge Roberts testified, and I was  
4 accused in this morning's Post of looking at my watch.  
5 I felt I came off pretty well unscathed if I was only  
6 accused of looking at my watch, but I know how  
7 precious your time is, and it's always a pleasure to  
8 appear before this Commission. You do great work, a  
9 very, very distinguished Commission. The only regret  
10 I have is that since I appeared here last with  
11 abundant hair, I don't appear here on this occasion  
12 with my customary hair, but I hope to return, and I  
13 hope to have my hair with me on that occasion. Thank  
14 you all very much.

15           CHAIRMAN KOPLAN: Thank you again. It's  
16 always a pleasure to have you, Senator.

17           SENATOR SPECTER: Thank you.

18           CHAIRMAN KOPLAN: Thank you. I wish you  
19 well.

20           SENATOR SPECTER: Thank you.

21           CHAIRMAN KOPLAN: Madam Secretary?

22           MS. ABBOTT: The Honorable Blanche L.  
23 Lincoln, United States Senator, Arkansas.

24           CHAIRMAN KOPLAN: Welcome back.

25           SENATOR LINCOLN: Thank you. Good morning.

1 I'm always delighted to be back with you, Mr.  
2 Chairman, and certainly honored to follow one of my  
3 good colleagues, the gentleman from Pennsylvania, who  
4 has got his plate full right now. I'm proud to be  
5 with you.

6 Good morning, Mr. Chairman, Chairman Koplan  
7 and members of the Commission. It is a pleasure to be  
8 back with you all. I find myself down here an awful  
9 lot, and I find myself well received, and I appreciate  
10 the efficiency and certainly the expertise that you  
11 all lend to such a very important issue for our nation  
12 and for our economy.

13 It's a pleasure to be here to speak on  
14 behalf of the producers of circular welded, non-alloy  
15 steel pipe in the State of Arkansas. It's been a  
16 tremendous industry for us, we're proud of it, and  
17 we've worked hard to build on that.

18 Before I begin my remarks, I would like to  
19 take a moment to welcome one of your newer  
20 commissioners, Shara Aranoff, to the Commission.  
21 Shara was always the Ginger Rogers of the Democratic  
22 Finance Committee trade staff. I want you all to know  
23 that. She did everything that Fred Astaire did, but  
24 she did it backwards and in heels, so we're proud to  
25 see her and delighted to have been able to work with

1 her before on the finance committee, and I know that  
2 you all will enjoy working with her. She has done a  
3 tremendous job. Welcome.

4 We do miss her on the finance committee, but  
5 we know that she is going to bring a commitment and a  
6 wealth of expertise on trade matters to her new  
7 position here with the Commission, and we want to  
8 congratulate her.

9 Mr. Chairman, I would like to turn to the  
10 matter at hand. We are very fortunate in Arkansas to  
11 have many companies producing these steel products in  
12 Arkansas, both steel as well as steel products:  
13 Wheatland Tube in Little Rock, IPSCO Tubulars and  
14 Maverick Tube in Blyville, Allied Tube in Pine Bluff  
15 -- I think they are also joined here today by Nucor  
16 Steel. These producers have been vital to bringing  
17 needed investment in manufacturing jobs to our state.  
18 They have made an enormous investment in some of the  
19 highest-poverty areas of our country. They bring good  
20 jobs and good value in that area. I'm very, very  
21 proud of them as corporate members and corporate  
22 citizens in our state.

23 I understand that these producers,  
24 particularly Allied Tube and Wheatland Tube, whose  
25 operations are almost completely dependent on the

1 production of the steel pipe that the subject of this  
2 investigation today, are facing difficulty because of  
3 a surge in the imports from China. Compared with  
4 10,000 tons a few years ago, these imports have surged  
5 to over 260,000 tons last year and are on pace to  
6 exceed 370,000 tons this year.

7 Mr. Chairman and members of the Commission,  
8 it's hard to imagine that any industry can survive  
9 those kinds of challenges. I also understand the  
10 prices of Chinese products are 20 to 30 percent below  
11 the prices of our Arkansas producers. Therefore, it's  
12 not difficult to understand why these Arkansas  
13 producers are having trouble and come to you all with  
14 such great concern.

15 At the Wheatland and Allied facilities,  
16 there have already been layoffs and shift reductions,  
17 and I think it's safe to say, these problems, at least  
18 in part, are the result of this dramatic surge of  
19 imports from China. We've always taken great pride in  
20 the efficiency of the steel producers in our state.  
21 They are some of the newer, most efficient and  
22 productive steel production in the country, and we're  
23 very proud of the operations and how they have  
24 modernized themselves to the effect that they could be  
25 the most competitive in the global marketplace.

1           And as this Commission is so well aware,  
2           this entire country is coping with the aftermath of  
3           the horrible disaster from Hurricane Katrina.  
4           Arkansas, as a neighbor to Louisiana and the Gulf  
5           Coast, has stepped up with the kindness that we expect  
6           of all Americans and certainly we, as Arkansans, take  
7           great pride in. We are offering as much support as  
8           absolutely possible. We're housing nearly 50,000  
9           refugees from the Gulf Coast in our state.

10           These companies and their workers are part  
11           of the fabric of Arkansas that will lend to others in  
12           need and share the benefits of their good fortunes  
13           with many others. They are a part of the overall  
14           fabric in Arkansas which has responded immediately  
15           without waiting for the backup of anybody else, but to  
16           be there for their good neighbors in the Gulf Coast  
17           region. My concern is if they lose their jobs, or  
18           they lose substantial portions of their income, it is  
19           much more difficult for them to help others, for our  
20           state economically to be able to be competitive and to  
21           rebound, and also to help create the kinds of jobs  
22           that are necessary in order to make the entire effort  
23           in the Gulf Coast a huge success.

24           In addition, there is no question that the  
25           rebuilding of the Gulf Coast is going to require

1 substantial amounts of all raw materials, including  
2 steel pipe, and I, for one, would like to see this  
3 rebuilding done with pipe made in Arkansas or, at the  
4 very least, with pipe made in the United States.

5 We've got a tremendous undertaking to  
6 rebuild the Gulf Coast. There is an awful lot there,  
7 whether it is local infrastructure in the communities,  
8 whether it's the heart of our port systems, which we  
9 know is very important to the movement of commerce  
10 across the country, particularly in the central part  
11 of our nation, or whether it's the pipelines that we  
12 have seen drastically impact the needs all across this  
13 country.

14 For these reasons and many, many others, my  
15 distinguished colleagues and I are present here today  
16 to ask you to carefully review the case before you and  
17 render a decision that will roll back these pipe  
18 imports from China to their presurge levels. This  
19 will allow our extremely efficient, Arkansas pipe  
20 companies, as well as our very fragile economies,  
21 particularly in the mid-South, to compete again until  
22 some of the larger trade issues that we have with our  
23 global neighbors and China, such as currency  
24 manipulation, are resolved.

25 I want to thank you for the opportunity to

1 appear here today before you, and I appreciate your  
2 consideration of my comments in your deliberation on  
3 an issue that has tremendous impact, particularly in  
4 my region but certainly for the entire country. And  
5 once again, my confidence in this Commission and the  
6 overwhelming kindness which you always extend to me in  
7 coming here, I'm very grateful for. So thank you very  
8 much for allowing me to be here today.

9 CHAIRMAN KOPLAN: Thank you, Senator. Let  
10 me see if any of my colleagues have any questions. If  
11 not, thank you very much for coming.

12 SENATOR LINCOLN: Thank you. We're  
13 grateful.

14 CHAIRMAN KOPLAN: Good to have you back.  
15 Madam Secretary?

16 MS. ABBOTT: The Honorable Phil English,  
17 United States Congressman, 3rd District, Pennsylvania.

18 CHAIRMAN KOPLAN: Welcome back, Congressman.

19 CONGRESSMAN ENGLISH: Mr. Chairman, I want  
20 to thank you and your fellow commissioners for the  
21 opportunity to appear here today, and if I might, I  
22 would like to submit my full testimony for the record.

23 CHAIRMAN KOPLAN: Without objection.

24 CONGRESSMAN ENGLISH: I have an opportunity  
25 to shorten and extemporize.

1           It's a privilege to appear here before you  
2           again, and for the record, I represent Pennsylvania's  
3           third congressional district. I serve on the House  
4           Ways and Means Committee and its trade subcommittee,  
5           and I'm currently chairman of the Congressional Steel  
6           Caucus. Today, I hope that I can sufficiently  
7           encapsulate both the importance of this industry to  
8           communities in my congressional district and the  
9           suffocating pressure that this industry faces as  
10          Chinese imports surge.

11           Data on relevant imports show staggering  
12          increases in imports, both in absolute terms as well  
13          as relate to domestic production and consumption. In  
14          absolute terms, imports of standard pipe have  
15          increased by over 2,600 percent, to 256,000 tons,  
16          simply during the period of 2002 to 2004. The  
17          relative increase of these same imports has been as  
18          large as the absolute increase, and this is a trend  
19          that has shown signs of acceleration recently.

20           Flooding imports are rapidly displacing  
21          domestic producers from recent market share. While in  
22          2002, standard pipe imports from China comprised only  
23          .04 percent of the U.S. market, by 2004, Chinese  
24          imports have captured just over 10 percent of the  
25          market. This lost volume for the standard pipe

1 industry is also lost volume for the basic steel  
2 industry and for its workers.

3 In addition to standard pipe, China is now  
4 the single largest exporter of all pipe and tube to  
5 the U.S., and millions of tons of excess steel and  
6 pipe and tube capacity in China threaten to wipe out  
7 the U.S. pipe industry and with it one of the three  
8 largest customer groups for the steel industry.  
9 Clearly, we have not fully seen the looming magnitude  
10 of this situation yet.

11 The result of these surging imports to  
12 domestic producers has been drastic. Production of  
13 the Petitioners during the second half of 2004 has  
14 fallen by nearly 175,000 tons, roughly 29 percent,  
15 when compared to the first half of the same year. In  
16 addition, shipment levels have decreased markedly, 32  
17 percent less than the volume for the first half of  
18 2004 when compared to the same period in 2005, and  
19 perhaps most devastating, the average number of  
20 production workers employed by the Petitioners has  
21 fallen significantly, and my district is a good  
22 specimen.

23 This industry has sustained furloughs  
24 totaling 293 workers, and more than two-thirds of  
25 those job losses came from companies located within my

1 district. Operating margins, which were already  
2 scant, have been thinning, and if no action is taken,  
3 it is only a matter of time before more workers lose  
4 their jobs, mills begin to close, and capital  
5 investment is cut back.

6 As you know, the Committee on Ways and Means  
7 included this China-specific, market-disruption  
8 mechanism in the U.S.-China Relations Act of 2000.  
9 Without it, in my view, we would have never passed  
10 China permanent MFN. This provision was added to  
11 replace Section 406 of the Trade Act of 1974, which  
12 has not applied to China since it acceded to the WTO  
13 in 2001.

14 Section 421 is a critical element in our  
15 trade remedy arsenal because it augments the  
16 antidumping and countervailing duty laws by providing  
17 domestic producers with a method to respond to  
18 absolute or relative increases of imports over periods  
19 of time that result in a significant market  
20 disruption. This unique trade remedy mechanism was  
21 included in the U.S.-China Relations Act precisely to  
22 respond to cases such as the one before us today.

23 While I was able to have the Department of  
24 Labor expedite trade adjustment assistance benefits  
25 for some of the furloughed workers involved, that's

1       only a modest response. The more important response  
2       is the case before you today. I believe we must  
3       ensure that U.S. employers not only have the tools to  
4       fight injurious trade practices but that we actually  
5       enforce the rules as well.

6               I've worked with you on the Commission on  
7       many issues since coming to Congress. I'm very  
8       grateful for the work you've done. I'm hopeful that  
9       this industry will get the relief it needs to rehire  
10      laid-off employees and have the opportunity to make  
11      investments to promote its long-term competitiveness.  
12      I think this case, of the many that I've appeared  
13      before you on, is perhaps one of the most important.  
14      The turnout today may not be as great, but what we are  
15      seeing is a precursor of challenges to other parts of  
16      our steel sector and other parts of our manufacturing  
17      base that must inevitably follow what's going on in  
18      China today.

19             I'm concerned, Commissioners, because I've  
20      seen China's huge level of investment in expanding its  
21      domestic steel capacity, and I fear, if there is a  
22      downturn in their economy, we will face a much bigger  
23      surge in imports into our country in all areas of  
24      steel production, much greater than what we  
25      experienced from Russia and the Pacific Rim at the

1 close of the last decade. This could be a crisis in  
2 the making, and it's important that we send a very  
3 clear signal today to the Chinese that they need to  
4 play by the rules and that we are prepared to do what  
5 it takes, within the rules, to provide relief to a  
6 very important part of our manufacturing base.

7 Again, I want to thank all of you for the  
8 opportunity to come in today and to present this  
9 testimony. Thank you, Mr. Chairman.

10 CHAIRMAN KOPLAN: Thank you.

11 MS. ABBOTT: The Honorable Marion Berry,  
12 United States Congressman, 1st District, Arkansas.

13 CHAIRMAN KOPLAN: Welcome back, Congressman.

14 CONGRESSMAN BERRY: Thank you, Mr. Chairman.  
15 I always find my appearance here present, and, of  
16 course, with great pride, I represent one of the  
17 largest steel-producing districts in the country, and  
18 that's something that I enjoy very much doing. I  
19 think we have executives here from IPSCO and Maverick  
20 and Nucor.

21 Of course, you've already heard from Senator  
22 Lincoln this morning. I know that Congressman Rick  
23 Schneider from Arkansas's second district has  
24 submitted written testimony, along with Senator Mark  
25 Pryor. Later, you will hear from our state

1 representatives and county executives, a county judge  
2 from Mississippi County, also, which certainly is a  
3 strong indication of how serious we think this problem  
4 is, and we appreciate you all giving us a hearing on  
5 this.

6 I know these hearings can be very redundant;  
7 however, I think that there are some new  
8 commissioners, and as my old friend, Charlie Stenholm,  
9 used to say, "Everything has been said, but everybody  
10 hasn't said it," and sometimes maybe we just have to  
11 keep repeating these things.

12 As I have already stated, I represent  
13 northeast Arkansas, which up until about 15 years ago  
14 was comprised almost entirely of rice, cotton, and  
15 soybean production. All of that changed when Nucor  
16 recognized our wonderful location on the Mississippi  
17 River and decided to build the first steel mill there.  
18 Not only does this district have good barge  
19 availability for raw materials and easy access to  
20 large markets in the Midwest, the Southwest, and the  
21 Gulf Coast, but we have hard-working Arkansans who  
22 appreciate the opportunity to be involved in the steel  
23 industry, and they do a wonderful job for these  
24 companies.

25 After Nucor built its first mill in

1 northeast Arkansas to produce structural sections, it  
2 decided, in the early 1990's, to construct a second  
3 facility for flat rolled. Eventually, pipe producers  
4 like Maverick and IPSCO recognized Nucor's strategic  
5 position and decided that they, too, could benefit  
6 from the location on the river. Today, those pipe  
7 producers provide even more jobs than the original  
8 Nucor facility does.

9 Altogether, these producers have invested  
10 hundreds of millions of dollars in our economy and  
11 created thousands of good jobs in the community. They  
12 have raised the standard of living for the entire area  
13 and have become world-class competitors in the foreign  
14 market.

15 Unfortunately, this great story does not end  
16 here. As the congressman from this region, I know  
17 that these companies face a serious threat in the  
18 global economy. I think that IPSCO put in a new pipe  
19 mill just five years ago and is losing ground to  
20 competitors thousands of miles away.

21 I'm just a farmer. I claim no extraordinary  
22 credentials in economics or trade or any of those  
23 things, but I don't understand how the Chinese could  
24 take 20 percent of the market for standard pipe in  
25 this country over the past few years when our country

1 has the most efficient steel mills and pipe mills in  
2 the world, and when something like that happens, we  
3 know that there is something wrong. It just doesn't  
4 seem fair to let the Chinese continue to manipulate  
5 things and take an advantage like they do, and that's  
6 the reason I'm here, is to ask you to address this  
7 issue.

8 As you know, the president and many other  
9 supporters of free trade like to give speeches  
10 proclaiming the great success that comes from greater  
11 access to foreign markets and how it helps the  
12 American economy. While this can be true, some of our  
13 trading partners just simply no longer play the game  
14 the way we do in this country.

15 American pipe producers are not going up  
16 against Chinese companies who follow the same rules.  
17 Instead, our producers face stiff competition from a  
18 country that has set its currency 30 to 40 percent  
19 below the market value, not to mention, our  
20 competitors do not enforce the same workplace and  
21 environmental protections that we practice in the  
22 State of Arkansas and in the United States. You  
23 cannot expect our businesses to succeed when the  
24 playing field is not level.

25 Something must be done to give America level

1        footing in the international market, and I urge you --  
2        I urge the administration and the Congress -- to begin  
3        to solve this problem now by doing something about our  
4        relationship with China. We cannot continue to give  
5        China such an advantage that almost all of our trade  
6        flows one way: from China to the United States. If  
7        we keep things the way they are, U.S. companies and  
8        their workers will lose more and more ground as  
9        foreign imports overwhelm our market.

10                I urge you to do what you can to help our  
11        American businesses, and I assure you, I will continue  
12        to work also to accomplish these same things. I thank  
13        you again for hearing us out and appreciate anything  
14        you can do to be helpful to us. Thank you.

15                CHAIRMAN KOPLAN: We appreciate your  
16        testimony very much. Let me see if my colleagues have  
17        any questions. Apparently not. Thank you so much for  
18        coming.

19                MS. ABBOTT: The Honorable Marvin Childers,  
20        State Representative, 77th District, Arkansas.

21                CHAIRMAN KOPLAN: Good morning.

22                REPRESENTATIVE CHILDERS: Good morning, Mr.  
23        Chairman and members of the Commission. It's an honor  
24        for me to appear before the Commission today in  
25        support of relief from surging imports of circular

1 welded, non-alloy pipe from China. For the record,  
2 I'm Marvin Childers. I'm the state representative for  
3 District 77, which comprises Mississippi County,  
4 Arkansas.

5 Mississippi County is located in the delta  
6 and has been transformed over the past 15 years from a  
7 poor, rural, farming community of cotton and rice  
8 farmers to a major steel center with high-paying jobs,  
9 lifting many of our people out of poverty. After  
10 Nucor Steel installed a structural mill, it installed  
11 a flat-rolled minimill in Hickman, Arkansas, the town  
12 next to Blyville.

13 Maverick Tube and IPSCO Tubulars then  
14 installed pipe mills in Hickman and in Blyville.  
15 Because the pipe is a value-added product, Maverick  
16 and IPSCO have more employees than Nucor. Arkansas is  
17 also proud to be home of Wheatland Tube, located in  
18 Little Rock, and Allied Tube and Conduit in Pine  
19 Bluff.

20 I stand before you to say that you cannot  
21 imagine the poverty that we have in my district. For  
22 a young person from an agricultural background, to  
23 know that you can get a 40, 50, or even \$60,000-a-year  
24 job in a pipe mill or steel mill is a dream come true.  
25 I know firsthand that someone who has the skills to

1 fix a farm tractor has the same skills to work in one  
2 of these mills.

3 As a state representative, we in Arkansas  
4 work hard to attract these types of jobs to our state,  
5 specifically to this region of the state, and when I  
6 hear about 30,000 to 40,000 tons a month of pipe from  
7 China coming to the United States at prices that  
8 reflect currency manipulation and export subsidies, I  
9 truly worry about losing every one of these jobs that  
10 we gained and the impact that it will have on our  
11 communities.

12 I traveled to Washington to ask this  
13 Commission to give our Arkansas companies and their  
14 workers who make up our community a fair chance to  
15 compete while the federal government tackles some of  
16 the big, unfair-trade problems with China. I thank  
17 you for giving me this opportunity to testify.

18 CHAIRMAN KOPLAN: We thank you for traveling  
19 here to make this presentation today. It's  
20 appreciated. Let's see if there are any questions  
21 from the dais. If not, thank you so much for coming.

22 REPRESENTATIVE CHILDERS: Thank you, Mr.  
23 Chairman.

24 MS. ABBOTT: The Honorable Melissa A. Hart,  
25 United States Congresswoman, 4th District,

1 Pennsylvania.

2 CHAIRMAN KOPLAN: Welcome back.

3 CONGRESSWOMAN HART: I'm not happy to have  
4 to be here again. I'm pleased to have the opportunity  
5 to be able to present testimony on behalf of my  
6 constituents, and like my colleagues before me, I  
7 thank you for the opportunity to testify, and I also  
8 am concerned very seriously about the market  
9 disruption and interested in this investigation of  
10 circular welded, non-alloy steel pipe from China.

11 It's the third opportunity I've actually had  
12 to give testimony before the Committee regarding the  
13 damage which this flow of low-cost imports has had on  
14 my communities in western Pennsylvania, especially on  
15 our economy. Our region was devastated by the  
16 collapse of the steel industry in the seventies and  
17 eighties, and this assault on our economy continues,  
18 unfortunately, as a result of the unfair challenges  
19 remaining to the rest of our domestic companies.

20 The northern portion of my district borders  
21 Congressman Phil English's district, who I know you've  
22 heard from as well. We share the greater Sharon area  
23 of northwestern Pennsylvania. That region is home to  
24 Sharon Tube Company and Wheatland Tube Company, and  
25 many of their employees call the Shenango Valley their

1 home and have for many generations.

2 My congressional district has had a long  
3 history of both pipe and steel manufacturing. The  
4 Aliquippa mills of Republic Steel, which later became  
5 LTV, were once the largest mills in the United States,  
6 so a number of families can trace their roots back to  
7 steel making. They, at one time, accounted for 15,000  
8 steel-producing jobs in the city of Aliquippa alone,  
9 and during the seventies and eighties, this plant was  
10 shuttered. There was a loss of thousands of jobs from  
11 there and other manufacturing facilities. LTV Tubular  
12 shut down two continuous-weld mills in Aliquippa in  
13 the late eighties, and it continued to put more people  
14 out of work.

15 As a result of the massive shutdowns, our  
16 region has struggled to rebound from those losses and  
17 has, to some degree. Unfortunately, despite a decade  
18 of strong growth in the United States, though, we  
19 haven't always found ways to replace these high-paying  
20 and very good benefit-producing jobs for the folks in  
21 our communities.

22 North of the Beaver Valley, there was some  
23 innovation and some more specialized steel working,  
24 steel making, and that has continued, especially at  
25 Wheatland and Sharon. They are among the survivors in

1 the standard pipe industry and are the strongest, most  
2 efficient producers in the industry. But over the  
3 last year, these producers have suffered greatly  
4 because of an import surge of pipe from China.

5 I've met several times with the workers who  
6 have been laid off from these plants and also those  
7 who are still working and also with the management  
8 there, and they have shared the difficulties that  
9 people face in growing their companies and obviously  
10 those who have lost jobs face in finding new jobs.  
11 I've worked with the Department of Labor to ensure  
12 trade adjustment assistance for these workers.

13 In 2000, the U.S. Congress passed the U.S.-  
14 China Trade Act. Included in that legislation was a  
15 provision to deal with the market disruption of  
16 imports from China. This is really a very sensitive  
17 issue with people in the communities I represent  
18 because they see us passing bills, and they see laws  
19 being signed that are supposed to prevent the harm  
20 that is being caused to the industry that we all see  
21 as unfair.

22 Included in that legislation was a provision  
23 to deal with market disruption of imports from China.  
24 Section 421 of the bill specifically allowed for you,  
25 the U.S. International Trade Commission, to determine

1 whether a product from China is being imported into  
2 the United States in such increased quantities that it  
3 threatens or causes market disruption to these  
4 domestic producers. We believe that this is directly  
5 what we are facing at this time.

6           Since the package of the legislation, you've  
7 been presented with five cases containing claims of  
8 market disruption. Three times, you have found market  
9 disruption in the market. Today's testimony is,  
10 unfortunately, continuing evidence that that  
11 disruption exists, especially in the pipe and tube  
12 industry. These import surges are a cause of alarm  
13 for us, and I make a plea today to the ITC to grant  
14 relief from this burden.

15           In reviewing the facts, though, regarding  
16 this issue, I was struck by two points in particular.  
17 The first is that this industry has lost 20 percent of  
18 its workers in the past year despite a strong economy  
19 and strong demand for their product. Specifically,  
20 Wheatland Tube laid off approximately 200 workers  
21 earlier this year, which is a significant percentage  
22 of employees in their plant, and it has a tremendous  
23 impact on the economy of Mercer County and surrounding  
24 counties.

25           Secondly, we have seen imports of Chinese

1 standard pipe surge from 9,000 tons in 2002, only  
2 9,000, to 266,000 in 2004. As a result, the United  
3 States pipe and tube industry has lost 10 percent of  
4 its market share to China in just the past 12 months.  
5 U.S. producers are close to serving only half of the  
6 U.S. market.

7           These trends, unfortunately, will continue  
8 without protection and will injure the industry to the  
9 point that our remaining domestic companies will no  
10 longer be able to survive.

11           Mr. Chairman and members of the Commission,  
12 as a member of the Congressional Steel Caucus, I've  
13 heard testimony over the last two years from the pipe  
14 and tube industry about the impact of the swell of  
15 imports. However, and sadly, there were no tools  
16 available to file cases until incurable injury occurs  
17 and jobs are lost. We now need your help in providing  
18 relief that will allow the remaining parts of this  
19 industry a fair playing field and an opportunity to  
20 survive.

21           For all of these reasons, I ask the  
22 Commission to make an affirmative injury determination  
23 that offers real assistance to the workers and the  
24 communities of western Pennsylvania and the  
25 surrounding states as well. I thank you for your time

1 and thank you for your consideration.

2 CHAIRMAN KOPLAN: We thank you for coming.  
3 Let me see if my colleagues have anything. If not,  
4 thank you so much.

5 MS. ABBOTT: The Honorable Brian Beader,  
6 Chairman, Mercer County Commissioners, Pennsylvania.

7 CHAIRMAN KOPLAN: Welcome.

8 MR. BEADER: Thank you. Good morning.  
9 Thank you, Mr. Chairman, for allowing me to provide  
10 testimony this morning. My name is Brian Beader, and  
11 I am an elected official of Mercer County,  
12 Pennsylvania, where I serve as county commissioner.

13 I'm here today to give brief testimony as to  
14 the impact standard pipe producers have on our local  
15 economy. Unfortunately, over the past four years,  
16 Mercer County has had to impose substantial tax  
17 increases on our residents. Obviously, there are many  
18 contributing factors, of which Mercer County is not  
19 unique. They include increased jail population,  
20 health care increases, state and federal program cuts.  
21 But when a person starts keeping track of lost  
22 employment, it begins to tell a very scary story.

23 Sure, one can get the unemployment figures  
24 provided by the state, but these do not always paint  
25 an accurate picture. We are losing good, life-

1 sustaining manufacturing jobs and picking up low-pay  
2 service jobs.

3 I would like to read a couple of headlines  
4 from our local newspaper that I believe are important  
5 and that you need to hear. This is what we see on a  
6 regular basis in Mercer County. This is from March of  
7 '03: "Wheatland Plant: Deal To Sell Plant's Assets  
8 Means Loss of 115 Jobs." From November of '04:  
9 "Wheatland Tube Lays Off 30 Workers." Later that  
10 month of '04: "Wheatland Tube To Lay Off 28 More."  
11 Now we're in December: "Wheatland Tube Company said,  
12 Up to 200 Workers at its Sharon Plant Could Be Laid  
13 Off by February."

14 I have many more examples, but what I'm  
15 trying to say is we are losing our manufacturing tax  
16 base in Mercer County. Wheatland Tube and Sharon Tube  
17 alone generate almost a half a million dollars in  
18 property tax across our taxing bodies in our local  
19 communities. If they were to leave, it would be  
20 devastating to our area. Can you imagine the income  
21 tax that would be lost? Can you imagine the economic  
22 impact to our other local businesses, our restaurants,  
23 car dealerships, grocery stores, let alone, the  
24 suppliers of Wheatland Tube and Sharon Tube?

25 Another very important consideration: the

1 charities of Mercer County. In 2004, these two  
2 corporations and their generous employees contributed  
3 well over \$130,000 to our local United Way. Now, this  
4 is only one example. However, I am confident that  
5 there are many more charities and community programs  
6 that rely on public donations that would be  
7 drastically impacted in the event these facilities  
8 would be forced to lay off more employees.

9 An example that I can give personally is  
10 construction. Prior to successfully running for  
11 office, I made my living as a construction  
12 electrician. I remember the days when it was a  
13 necessity to work weekends and holidays at these  
14 plants. We always had a very short window in order to  
15 complete these projects because the mill needed to  
16 run. Production could not be stopped. I do not  
17 believe that to be the same today.

18 Through our IBEW referral hall, we have had  
19 a 40-percent unemployment rate for the fourth straight  
20 year. Yes, I did not misstate that: 40 percent for  
21 four straight years. Part of this is directly related  
22 to the tube mills slowing down.

23 I could go on with numerous more examples;  
24 however, I am confident you understand my sense of  
25 urgency with regard to this matter and the impact on

1 Mercer County's economic future.

2 Before I close, I would like to share one  
3 other thing with you. This is a booklet produced by  
4 the county back in 1973. I need to read you a couple  
5 of lines out of here. "Mercer County, with a  
6 population of over 127,000 persons, is a fifth-class  
7 county. The population of this county, thanks to  
8 ever-increasing business and industry in the highways  
9 and recreation development, is expanding and is  
10 expected to reach 180,000 people by 1980."

11 I think I provided a chart for you in your  
12 packet. Here is our census. The latest statistics we  
13 have, our population is 120,000. I checked recently,  
14 and at 2004, we are at 119,000. Even during the Great  
15 Depression, we had increased population in our  
16 communities. That is not the same today.

17 I am strongly convinced, if relief is not  
18 provided under a Section 421 petition, we will  
19 continue to write dark pages in our history books.

20 I want to thank you for granting me the  
21 opportunity to speak to you today. This trade matter  
22 not only impacts Mercer County and other communities  
23 but the entire United States, and I would strongly  
24 urge you to support this petition and provide relief  
25 to the industry and its workers.

1                   CHAIRMAN KOPLAN: Thank you very much for  
2 coming. I see there are no questions from the dias.  
3 Thank you very much.

4                   MS. ABBOTT: The Honorable Michael C.  
5 Gruitza, State Representative, 7th District,  
6 Pennsylvania.

7                   REPRESENTATIVE GRUITZA: Good morning,  
8 Chairman Koplan and members of the Commission.

9                   CHAIRMAN KOPLAN: Good morning.

10                  REPRESENTATIVE GRUITZA: It's an honor to be  
11 here. I don't get to Washington very often. I spend  
12 most of my time in Harrisburg or the Sharon area or on  
13 Interstate 80 in between the two points. But it's  
14 very important that I'm here today, and it's very  
15 important to my district. The congressman from  
16 Arkansas talked about redundancy. I know some of the  
17 things I'm going to say may be a little redundant.

18                  I've got to tell you that I've had the  
19 privilege of representing one of Pennsylvania's great  
20 districts, I mean, great districts, for 25 years.  
21 This district has the heart and soul that embodies the  
22 spirit of Pennsylvania and the spirit of this country,  
23 and sitting in the back of the room, -- I don't know  
24 if anybody has acknowledged them -- is a bus load of  
25 my good workers that are employed in the tube mills,

1 Wheatland Tube and Sharon Tube. They came down here  
2 just to let you know how important this is to the  
3 district.

4 My district has been involved in the  
5 production of steel and steel tubing for over 100  
6 years. Two of the companies here today, Sharon and  
7 Wheatland Tube, are located in the district and are  
8 Petitioners in the case. Wheatland has been operating  
9 its plants in Wheatland since 1877. Sharon Tube  
10 opened its operations in 1929. Incidentally, in the  
11 year between college and law school for me, I had the  
12 opportunity to work at Sharon Tube, and I can tell you  
13 what a well-run plant it is, and the reason why these  
14 two, of the many, many companies that have been  
15 involved in the production of steel tubing are still  
16 in existence today is because they are well run, and  
17 they are well-staffed companies.

18 I can't begin to explain how important these  
19 companies and this industry have been to our region  
20 and to our entire state. Generations of families have  
21 earned their livings at these mills, including the  
22 families of two of my local staffers in my district  
23 office. These companies have had an outstanding  
24 record of providing good jobs which have contributed  
25 to the well-being of our local economy, including our

1 schools and our public institutions. They are good  
2 corporate citizens.

3 Earlier, throughout this year, I've met with  
4 the workers and the management of these plants and  
5 have learned firsthand about the impact that this  
6 surge of imports of standard pipe has had on our  
7 companies and their jobs. I also learned of the  
8 layoffs of 200 workers at Wheatland Tube and the  
9 continuing challenges that these companies face in  
10 order to stay in business.

11 These layoffs were troubling for all of us,  
12 and, fortunately, the U.S. government approved the  
13 certification of trade assistance for these workers.  
14 However, while this type of assistance is helpful,  
15 it's not the solution to the problem. We want to see  
16 these workers return to their jobs and this industry  
17 back up on its feet and at full strength.

18 Pursuant to this, I introduced a resolution  
19 in the House which is attached to my comments. It's  
20 currently before the House Commerce Committee in  
21 Harrisburg, and we expect it to be acted on as soon as  
22 the House comes back into session here in the next few  
23 weeks.

24 Mr. Chairman and members of the Commission,  
25 during my tenure in public office, I've witnessed the

1 long and hard road this industry has undertaken to  
2 adjust to trade practices which have forced  
3 bankruptcies, consolidations, and the economic erosion  
4 of entire communities. I want to be sure that you and  
5 others in Washington understand how very important it  
6 is for us to maintain a strong manufacturing base and  
7 why it is essential that these Pennsylvania companies  
8 and others in this industry get appropriate relief  
9 from the surge in imports.

10 The future of our region relies on the  
11 health of these companies. I hope the Commission will  
12 be able to help resolve this problem and provide this  
13 industry and its workers with a recommendation for  
14 relief. I really thank you for the opportunity to  
15 make these comments.

16 I just want to say one thing that's not on  
17 the program there. Twenty-five years, what I saw  
18 happen in my district: I saw Sharon Steel go down.  
19 And, you know, I saw the Westinghouse Transformer  
20 Company, Medium Transformer Division, go down and  
21 General American Transportation go down. They make  
22 the tank cars. Several foundries.

23 We lost about 7,000 jobs. It's been tough.  
24 I used to have more hair. The thing is, and if I  
25 could just say this one thing, the Penn State

1 University School of Business does a report on local  
2 economies, and at one point they were saying, we've  
3 had it. The Sharon metropolitan area has had it. A  
4 couple of years later, a professor wrote: "The Sharon  
5 area has shown remarkable resilience in the face of  
6 these massive job losses, and they attribute it to a  
7 number of things."

8 I'm going to say this to the Commission.  
9 You fellows back here, that industry has been the  
10 anchor bolts. It's been the one industry that through  
11 those tough, tough times has kind of pulled that  
12 region through. It's not a big community -- 60,000 to  
13 100,000 people in the county. If we lose this  
14 resilience, I don't know what's going to happen up  
15 there. It's going to be real, real tough. It's very  
16 critical that we at least keep this industry.

17 Thank you for allowing me the opportunity to  
18 speak to you.

19 CHAIRMAN KOPLAN: Thank you for coming. The  
20 full text of your statement, including the resolution  
21 that's attached to it, will be made a part of the  
22 record.

23 REPRESENTATIVE GRUITZA: Thank you, Mr.  
24 Chairman. Are there any questions?

25 CHAIRMAN KOPLAN: I see there are no

1 questions from the dais.

2 REPRESENTATIVE GRUITZA: Thank you.

3 MS. ABBOTT: The Honorable Steve McGuire,  
4 County Judge, Mississippi County, Arkansas.

5 MR. MCGUIRE: Good morning.

6 CHAIRMAN KOPLAN: Good morning, sir.

7 MR. MCGUIRE: I'm Steve McGuire, the chief  
8 executive officer of Mississippi County, Arkansas,  
9 with the title, county judge. Thank you, Chairman  
10 Koplan and Commissioners Okun, Hillman, Lane, Pearson,  
11 and Aranoff, for allowing me the opportunity to share  
12 with you the concerns of the citizens of our region  
13 and the overall impact that an uncontrolled  
14 importation of steel products, specifically circular  
15 welded, non-alloy steel pipes, is having, and will  
16 increasingly have, on our region and our country.

17 Mississippi County is located in the extreme  
18 northeastern corner of the State of Arkansas, with our  
19 northern border the State of Missouri and our eastern  
20 border the Mississippi River. We are in the heart of  
21 the Mississippi River delta, blessed with fertile soil  
22 and weather conditions that have four our entire span  
23 of existence provided the United States and the world  
24 with high-quality agricultural products. However, as  
25 is true throughout the delta area, the revenues

1 provided by the agricultural production industry have  
2 diminished, making Mississippi County a poverty-  
3 stricken county, even though we have many natural  
4 assets in the form of location within the United  
5 States and infrastructure.

6 As technology and the economy have evolved,  
7 our original primary industry -- cotton, soybeans,  
8 grain sorghum, wheat, corn, and rice production -- jobs  
9 have diminished and with that, in conjunction with the  
10 closure of our Strategic Air Command Air Force Base,  
11 Aker Air Force Base, in 1991, the unemployment rate  
12 escalated dramatically, making Mississippi County the  
13 most unemployed county in the State of Arkansas.

14 The good news is that as a result of the  
15 high-quality work ethic, the abutment to the  
16 Mississippi River, interstate and rail connections,  
17 Nucor Steel chose to locate their Nucor/Yamato  
18 structural beam mill in Mississippi County in 1988.  
19 While this new industry grew to provide 800 to 900  
20 high-paying jobs, we still had a challenge to replace  
21 the 6,000 jobs lost by the base closure and the  
22 declining trend of agricultural jobs.

23 After having operated the Nucor/Yamato plant  
24 for approximately three years, Nucor decided to  
25 further utilize the assets of the county in the

1 establishment of a second mill, Nucor-Arkansas, a  
2 flat-rolled steel mill, creating another 300 or 400  
3 jobs. This phenomenal occurrence, making Mississippi  
4 County the second-largest, steel-producing county in  
5 the United States, attracted Maverick Tube and IPSCO  
6 Tubular adjacent to Nucor-Arkansas, creating another  
7 approximately 1,300 jobs.

8 But even with this tremendous addition,  
9 Mississippi County continues to be the most unemployed  
10 county in the State of Arkansas. Therefore, it's very  
11 obvious that we value every job very highly, and we  
12 work diligently to create more jobs. In fact, even  
13 though we have a financially challenged population,  
14 the citizens of the county voted to tax ourselves with  
15 a half-cent sales tax to create economic-development  
16 funds to be invested in local incentives to create new  
17 jobs, both in expansion of existing industries and the  
18 relocated new industries. This provides us a resource  
19 with which to meet or exceed our competitive sites.

20 So you see, with the background information  
21 I've provided, the needs and efforts to deliver jobs  
22 not only to Mississippi County, Arkansas, but also to  
23 southeastern Missouri, western Tennessee, northern  
24 Mississippi, southern Illinois, and western Kentucky  
25 is extraordinary. The surge in imported steel

1 products could have a devastating effect on this part  
2 of the United States, occupied by the type of citizen  
3 that contributes the highest dollar amount per capita  
4 of any county in the country to St. Jude's Childrens  
5 Research Hospital, to the American Cancer Society, and  
6 has provided, and is continuing to provide, help to  
7 our fellow citizens ravaged by Hurricane Katrina.

8 Our regional citizens not only work  
9 assiduously to provide a better-quality life for  
10 ourselves and our families, but we have a high regard  
11 for the well-being of our entire country. We greatly  
12 appreciate your consideration of working with the  
13 appropriate individuals and entities to ensure that  
14 the United States industries are given a level playing  
15 field on which to compete and to continue to provide  
16 our desired quality of life.

17 In conclusion, I would like to extend to  
18 each of you an invitation to come to Mississippi  
19 County, Arkansas, and convey also to you that despite  
20 the challenging opportunities that we face, we daily  
21 strive to make my catch phrase that I use in the  
22 county to be factual, and that would be truly to make  
23 it "a great day to be in Mississippi County." Thank  
24 you.

25 CHAIRMAN KOPLAN: Thank you, sir, for your

1 testimony. I see there are no questions from the  
2 dais. I appreciate you coming.

3 MR. MCGUIRE: Thank you very much.

4 CHAIRMAN KOPLAN: Madam Secretary, are there  
5 any other public witnesses, government witnesses,  
6 here?

7 MS. ABBOTT: No, Mr. Chairman. We will  
8 proceed to opening remarks, then.

9 CHAIRMAN KOPLAN: Yes.

10 MS. ABBOTT: Opening remarks in support of  
11 relief will be by Roger B. Schagrín, Schagrín  
12 Associates.

13 MR. SCHAGRIN: Good morning, Chairman  
14 Koplan, members of the Commission.

15 CHAIRMAN KOPLAN: Good morning.

16 OPENING REMARKS OF ROBERT B. SCHAGRIN

17 MR. SCHAGRIN: Good morning. A special  
18 welcome to Commissioner Aranoff. The good news is  
19 that you are now a distinguished member of one of the  
20 finest, independent, government commissions we have in  
21 Washington. Of course, the bad news, as maybe your  
22 fellow commissioners have told you, is now you'll  
23 probably see more of me than you had to when you were  
24 on the Hill.

25 Why are we here today? The answer is

1 simple. In the past year, the domestic industry lost  
2 10 percent of the U.S. market while China's market  
3 share was up 10 and a half percent and surged in the  
4 first half of this year to 17.6 percent of the U.S.  
5 market. For the U.S. industry, production plunged by  
6 28 percent. Capacity utilization fell by 14 and a  
7 half percent. Shipments fell by 27 percent.  
8 Employment fell by 400 workers, and hours worked fell  
9 by 20 percent.

10 In response to this dramatic and  
11 overwhelming evidence of market disruption in  
12 production indicators, the Chinese Respondents argue  
13 in their prehearing brief that the 365,000 tons of  
14 imports from China over the last 12 months had no  
15 material impact, but instead, all of these plummeting  
16 domestic production and employment indicators were  
17 caused by the domestic industry itself increasing its  
18 prices. This is absurd. No one decides on building a  
19 building, installing a sprinkler system in that  
20 building, or putting a security fence around that  
21 construction site based on the price of the pipe.

22 But what is most outrageous about  
23 Respondent's argument is that while the unit values of  
24 the U.S. producers' shipments increased by 42 percent  
25 over the interim periods, the average unit values of

1 pipe imported from China increased by 29 percent. So  
2 in response to that 29-percent unit value increase for  
3 Chinese pipe, how much did demand for Chinese fall?  
4 It didn't. Chinese pipe imports more than doubled,  
5 from 88,000 to 185,000 tons. I guess these economic  
6 laws that we are told about should not be applied  
7 equally to communist China as they are to the domestic  
8 industry.

9 Of course, maybe I would understand these  
10 arguments better if I just lagged the imports and  
11 lagged them some more and lagged everything else some  
12 more instead of using the evidence on the record of  
13 the ITC's prehearing staff report. But I think, at  
14 today's proceeding, I'll rely on the staff report  
15 instead of creating my own data set for this  
16 investigation.

17 The simple fact is that Chinese import  
18 volume and market share have soared because the  
19 Chinese are underselling the U.S. industry by large  
20 amounts for a commodity product. This underselling  
21 has caused price suppression as the domestic industry  
22 has been unable to cover increasing costs of raw  
23 material, both steel and zinc, soaring energy costs,  
24 and increasing conversion costs caused by lower  
25 production volumes. Operating condition fell by 60

1 percent. Operating margins have plummeted, and net  
2 income has plummeted even further as interest expenses  
3 are increasing with higher interest rates.

4 The Chinese response to these lower  
5 operating margins for the domestic industry is, again,  
6 lag the data. But inventory cost lags could possibly  
7 cause one anomalous quarter. This industry's profits  
8 have been down for four quarters and are still getting  
9 worse.

10 I've had the honor of representing this  
11 industry for 23 years, and I have never seen the  
12 situation so dire as all of these elected  
13 representatives have explained earlier today. Every  
14 objective indicator demonstrates that yet another  
15 90,000 or 100,000 tons of Chinese imports are arriving  
16 in the third quarter of 2005. As a result, domestic  
17 production, shipments, and profits continue to weaken.  
18 No amount of unscrupulous, economic mumbo-jumbo could  
19 possibly convince this Commission to deviate from the  
20 overwhelming record evidence before you.

21 Numerous decisions are pending by domestic  
22 producers on shutting down plants that are hanging on  
23 by a thread because of the absurdly low operating  
24 rates caused by Chinese imports. I ask you not to  
25 forsake this industry and its hard-working American

1 employees, some of whom are sitting at the back of  
2 this room. Please make an affirmative determination  
3 and recommend a strong remedy. Thank you.

4 CHAIRMAN KOPLAN: Thank you, Mr. Schagrin.

5 MS. ABBOTT: Opening remarks in opposition  
6 to relief will be by William H. Barringer, Wilkie Farr  
7 & Gallagher.

8 CHAIRMAN KOPLAN: Glad to see you're still  
9 here.

10 OPENING REMARKS OF WILLIAM H. BARRINGER

11 MR. BARRINGER: Thank you, Mr. Chairman.  
12 I'm Bill Barringer, and for the record, I'm a partner  
13 in Wilkie Farr & Gallagher, and I'm representing the  
14 Chinese Respondents.

15 Welcome, Commissioner Aranoff. This is my  
16 first opportunity to appear before you. I know that  
17 we look forward to seeing you for many years and many  
18 late evenings, I'm sure.

19 Let me begin by saying I started practicing  
20 here 28 years ago, and I've been in literally dozens  
21 of cases, and in that time I have never seen a case,  
22 even including cases where the Commission has made  
23 negative determinations, that has a weaker set of  
24 facts in terms of injury to the industry and the  
25 effects of imports on the domestic industry than is

1 present in this investigation. Perhaps that is the  
2 reason that Petitioners need an extra 30 minutes to  
3 convince the Commission that the facts are not as they  
4 appear.

5 In advertising, they say you should repeat  
6 the message three times if you want it to be  
7 remembered. Maybe repeating it a dozen times or more  
8 will make it more credible, but it doesn't make it  
9 true.

10 Let's look at some facts. The industry  
11 claims that it is being injured despite the following  
12 facts. It has been profitable in every year of the  
13 period of investigation and during interim 2005. It  
14 had record profits in the most recently completed  
15 fiscal year, double-digit profits. If profits during  
16 interim 2005 are very close to the average level of  
17 profits during the preceding five years, the same  
18 product that sold for \$513, when this Commission last  
19 investigated pipe and tube and issued a negative  
20 determination, was selling for \$957 at the end of the  
21 period of investigation, with an additional \$60 price  
22 increase effective at the beginning of September.

23 The margins between the industry's material  
24 costs and its prices have increased throughout the  
25 period of investigation and have been at record levels

1 during the period when subject imports allegedly  
2 increased.

3 If anything, however, the facts understate  
4 the health of the industry. If one recognizes that  
5 the industry has low-cost inventory purchased during  
6 the last two quarters but is now raising prices to  
7 reflect the replacement cost of that inventory, the  
8 second half of 2005 is likely to be even more  
9 profitable than the record 2004, when profits as a  
10 percent of sales were in double digits.

11 Petitioners claim price suppression, and  
12 these claims are also contradicted by the facts.  
13 Prices have risen throughout the period of  
14 investigation and today are approximately double the  
15 level of two years ago. Standard pipe prices show a  
16 near-perfect correlation with other pipe and tube  
17 prices, with flat-rolled prices, and with the prices  
18 of most other steel mill products. As we will show  
19 later, in fact, standard pipe prices have gone up more  
20 than most of these products.

21 Despite allegedly increasing subject  
22 imports, the industry has been able to increase the  
23 gap between its raw material costs and its prices.  
24 That leaves the question of volume. There are  
25 numerous explanations for the decline in production

1 and shipments by the domestic industry. By their own  
2 admission, there was a feedstock availability problem  
3 toward the end of the period of investigation. By  
4 their own admission, as prices skyrocketed, customers  
5 built up inventory which, as prices moderated, had to  
6 be liquidated before normal buying patterns could  
7 resume. By their own admission, at least some of the  
8 domestic producers shifted from standard pipe into  
9 higher-value-added products. This is borne out by an  
10 increased OCTG production and shipments using the same  
11 facilities.

12 Each of these admissions by the domestic  
13 industry are reasons why the quantity of domestic  
14 shipments has decreased over the past year, and they  
15 have nothing to do with imports. However, all of  
16 these reasons pale in comparison with the single  
17 biggest reason to explain the decrease. Pipe prices  
18 have doubled.

19 The basic economic law of demand states that  
20 when prices dramatically rise, the quantity that  
21 customers will purchase will decrease. This is  
22 exactly what happened in 2004 and the first half of  
23 2005. There were fewer sales of domestic pipe because  
24 prices were so high. And I would note that you don't  
25 have to take my word for this; your own staff has

1 confirmed this very point in its economic findings  
2 regarding elasticity.

3 In conclusion, the essence of the  
4 Petitioners' case is that our costs have gone up, our  
5 prices have doubled, but our volume has declined.  
6 Blame it on imports from China. This is simply not a  
7 basis for an affirmative determination. Thank you  
8 very much.

9 CHAIRMAN KOPLAN: Thank you.

10 Madam Secretary?

11 MS. ABBOTT: The first panel in support of  
12 relief, please come forward.

13 Mr. Chairman, the witnesses have been sworn.

14 CHAIRMAN KOPLAN: Thank you, Madam  
15 Secretary.

16 (Pause.)

17 CHAIRMAN KOPLAN: Madam Secretary, I  
18 understand we have another congressional witness.

19 MS. ABBOTT: Yes, Mr. Chairman. The  
20 Honorable Tim Ryan, United States Congressman, 17th  
21 District, Ohio.

22 CHAIRMAN KOPLAN: There will be a very  
23 slight delay.

24 MS. ABBOTT: I was just going to say he will  
25 be with us in a moment.

1 CHAIRMAN KOPLAN: I understand.

2 (Pause.)

3 CHAIRMAN KOPLAN: Madam Secretary?

4 MS. ABBOTT: Yes, Mr. Chairman.

5 (Pause.)

6 CHAIRMAN KOPLAN: Okay. I was just missing  
7 you, Madam Secretary. The witness is here. Do you  
8 want to announce him?

9 MS. ABBOTT: The Honorable Tim Ryan, United  
10 States Congressman, 17th District, Ohio.

11 CHAIRMAN KOPLAN: Welcome, Congressman. You  
12 may proceed.

13 CONGRESSMAN RYAN: Thank you very much for  
14 being so accommodating. Good morning, Mr. Chairman  
15 and members of the Commission. I appreciate the  
16 opportunity to appear before you today to explain the  
17 importance of this case for my constituents in Ohio's  
18 17th Congressional District.

19 Wheatland Tube Company and Sharon Tube  
20 company, which operate plants in my district and just  
21 outside of my district, have already laid off hundreds  
22 of workers due in large part to surging imports from  
23 China. While I'm grateful that many workers in my  
24 district have received trade adjustment assistance,  
25 what my district needs is high-paying jobs and a

1 higher tax base, not just trade assistance.

2           These companies, Mr. Chairman, which are  
3 vital components to the economy of my district, are  
4 facing even more layoffs and, in at least one case,  
5 closure. The president of one of the largest  
6 companies in my district, WCI Steel, their president,  
7 Pat Tatom, is here today to stress the importance of  
8 these pipe customers to his company's survival. It  
9 should trouble all of us today that the survival of  
10 WCI continues to be threatened as the company  
11 struggles to exit from bankruptcy because its sales to  
12 pipe producers are failing.

13           This Commission may not be familiar with the  
14 economic plight of my district in northeastern Ohio.  
15 In my district, we have one of the highest poverty  
16 rates in the country. We have school children who  
17 have serious risks of blood poisoning because we  
18 haven't been able to afford lead paint removal. Our  
19 school systems are badly underfunded because our tax  
20 base has been shrinking for years, and manufacturing  
21 has shut down.

22           The National Science Foundation estimates  
23 that China graduates over 200,000 engineers annually,  
24 and some experts estimate India graduates up to  
25 130,000 engineers annually, whereas the U.S. only

1 graduates 70,000 annually. So I ask today, how are we  
2 going to recruit students to become engineers if those  
3 jobs are going overseas? How are we going to help  
4 students train to be engineers if the cost of a higher  
5 education keeps going up because the funding for  
6 schools keeps going down?

7           When Maverick Tube Corporation shut down its  
8 Campbell pipe plant, formerly LTV, in mid-2003, it  
9 marked the closing of the last remaining Youngstown  
10 sheet and tube facility, a facility that stretched for  
11 miles along the Mahoney River. When I was a kid, the  
12 company employed over 20,000 people. Now it's all  
13 gone.

14           I worry also that Congress doesn't fully  
15 understand that unless there is a lot more federal  
16 funding, then districts like mine whose manufacturing  
17 bases have been hollowed out by foreign competition  
18 have no way to fund the education necessary to compete  
19 in today's global economy. Instead, they risk falling  
20 farther and farther behind.

21           Based upon my direct knowledge of the  
22 Chinese economy, I'm convinced that China's industry  
23 is not operating on a fair playing field. I have co-  
24 sponsored legislation with the Republican chairman of  
25 the Armed Services Committee, Duncan Hunter, to make

1 currency manipulation a countervailable, unfair trade  
2 practice. Chinese competitors in the steel and pipe  
3 industry also don't face environmental regulations, or  
4 if they do, they are not enforced. We all know how  
5 horrible China's labor, worker safety, and human  
6 rights practices are, and we're learning more about  
7 how China subsidizes the energy costs of its  
8 manufacturers.

9 It isn't fair or strategically prudent for  
10 the United States government and Congress to sit by  
11 and do nothing as these unfair practices take jobs  
12 from hard-working, honorable Americans. Letting China  
13 cheat is not free trade. Letting China cheat is  
14 protectionism by China and appeasement by the United  
15 States.

16 For all of these reasons, I ask you to  
17 carefully review the record before you and to render  
18 an affirmative injury determination that will remedy  
19 the problems being caused to pipe and steel producers  
20 in my district. I appreciate the Committee being so  
21 generous and accommodating. Thank you very much.

22 CHAIRMAN KOPLAN: Thank you for coming. I  
23 see there are no questions from the dais. You are  
24 excused.

25 Madam Secretary, we can proceed.

1 MS. ABBOTT: Yes, Mr. Chairman. The panel  
2 is seated, and the witnesses have been sworn.

3 MR. SCHAGRIN: Good morning again, Mr.  
4 Chairman and members of the Commission. Before  
5 turning things over to this panel of witnesses that we  
6 have assembled today, I would like to use at least one  
7 minute of the extra time we receive to thank the  
8 staff, which I would otherwise not have had time to  
9 do.

10 I know you all know what a wonderful staff  
11 you have here at the Commission, but I would like to  
12 point out that when I came to the Commission staff at  
13 the end of June and said that we wanted to file a case  
14 at the beginning of August, as soon as we had the mid-  
15 year data, and I knew that August is not everybody's  
16 favorite time to work, the Commission staff said, just  
17 bring it on.

18 They also noted to me, which I didn't know  
19 because this is my first 421 case, and most of my  
20 colleagues around town, I guess, Mr. Barringer  
21 included, think anybody is nuts today to bring a 421  
22 case -- we can talk about that later -- they pointed  
23 out that none of the other 421 cases had been  
24 initiated at the time of filing. They had been  
25 delayed by weeks as the Commission decided whether the

1 filing was proper or not, and I said we couldn't  
2 afford that kind of delay, and I would do anything  
3 possible to work with the Commission to make sure, at  
4 the time of filing, it was all proper in terms of  
5 being initiated. And your staff gave us comments, on  
6 an incredibly quick-turnaround basis, on several  
7 drafts to make sure that, at the time of filing, the  
8 Commission could initiate the petition.

9 And then, of course, you can look at this  
10 staff report that was prepared. This staff report,  
11 prepared in 30 days, is the equivalent, in terms of  
12 quality, of any staff report you would get in a Title  
13 VII or a sunset review case in which the Commission  
14 staff normally has about 90 days. They have got about  
15 98 percent coverage on the domestic industry, 70 to 75  
16 percent coverage on importers and foreign producers,  
17 and I'm sure that's been increased.

18 So I want to thank them. They have done a  
19 super job in this case, and I think you've got a great  
20 record upon which to rely for your decision.

21 Now, we're going to turn things over to our  
22 witnesses, and while Mr. Barringer intimates that  
23 bringing a lot of witnesses to a hearing is a bad  
24 thing to explain the facts of a case, I think it's a  
25 good thing, having practiced before this Commission

1 just five years shorter than Mr. Barringer, because  
2 between the six companies today, they represent about  
3 70 percent of the industry. You've got an average of  
4 experience in this industry of about 30 years. We've  
5 got major customer witnesses who also have 25 to 30  
6 years of experience and major supplier witnesses.

7 Now, I'm glad that Ferrostaal brought Mr.  
8 Coibion today to explain about importing. I'm  
9 saddened by the fact that Mr. Barringer, who is well  
10 known for his hutzpah before all agencies, to say that  
11 the Chinese communist government didn't need to bring  
12 any witnesses to explain the situation in China, their  
13 designs on the U.S. market, so, instead, you're going  
14 to have to listen to Mr. Barringer and Professor  
15 Prusa, and I think it's going to become rather obvious  
16 that the witnesses on this panel know much more about  
17 this industry than lawyers and economists.

18 So with that, let me turn it over to Pete  
19 Dooner.

20 MR. DOONER: Thank you, Roger. Chairman  
21 Koplan and members of the Commission, Pete Dooner is  
22 my name. I'm with Wheatland Tube Company. I'm the  
23 president and CEO, and I've had the privilege of  
24 serving as the president and CEO of Wheatland for a  
25 little over four years. I joined the company 21 years

1       ago, and I'm joined, just behind me, by Mark Magno,  
2       who actually joined the company about six months prior  
3       to my joining the company.

4               Our company's roots stretch back 128 years.  
5       John Maneely started the John Maneely Company as a  
6       distributor of pipe valves and fittings, and then,  
7       subsequent to that, John's two sons opened our  
8       Wheatland plant, which is still one of our main plants  
9       today, in 1931.

10              CHAIRMAN KOPLAN:  If you would move the  
11       microphone just a little bit away from you, it will  
12       work better.

13              MR. DOONER:  Yes, sir.  So we have this  
14       Wheatland plant which opened in 1931, really at the  
15       height of the Depression, and the company has grown  
16       significantly since then, with plants in Sharon, Pa.;  
17       Warren, Ohio; Little Rock, Arkansas; and Chicago.

18              We acquired the Little Rock mills in 1992  
19       from Sumitoma Metals, and our biggest acquisition and  
20       growth initiative ever occurred in the spring of 2002  
21       when we acquired from the AK Steel Company the Saw  
22       Hill Tubular Division.  Now, the Saw Hill Tubular  
23       Division, you're going to hear a lot about our Sharon  
24       plant -- this is the big plant that came with the  
25       acquisition

1 -- in Warren, Ohio, also. When we made this  
2 acquisition, there were two smaller divisions, raw-  
3 formed shapes and cold-raw tubing, which we sold off  
4 because they were really not in our core area of pipe  
5 and tube making.

6 What Saw Hill gave us was 300,000 tons of  
7 pipe-making capacity, pipe and conduit, actually, and  
8 in the three and a half years since we acquired Saw  
9 Hill, we've invested \$25 million in capital in the  
10 Sharon plant. In the five prior years to our  
11 ownership, AK and Armco, the two prior owners,  
12 invested a total of \$600,000 in the prior five years,  
13 and in the three and a half years since we've owned  
14 it, \$25 million in capital.

15 We have more capital to spend. We have  
16 already lowered the operating conversion rates, and  
17 the tons per man hour have increased, but we have more  
18 capital to spend to get the Sharon plant up to the  
19 standards of our Wheatland plant.

20 Both Wheatland and Sharon, Pa., are  
21 continuous-weld mills. These are hot mills, and they  
22 are run by natural gas. It's a very competitive  
23 process if you can run the mill on a continual basis  
24 at a high operating rate, but what we're faced with  
25 now are very low operating rates, and it's a very

1 difficult process. The capacity is kind of light  
2 right now.

3 Now, here is why we're here. I want to tell  
4 you about the Chinese imports and what has happened  
5 with the Chinese imports and what pain it's caused for  
6 Wheatland Tube Company. In mid-2004, we were in the  
7 midst of our strongest shipping year ever in our long  
8 history. In June of 2004, we noticed that our sales  
9 book died; it collapsed. We also noted a surge of  
10 cheap pipe coming into the States from China. Since  
11 that time, our standard pipe business has fallen by 30  
12 percent.

13 Prior to the collapse of our markets, we  
14 were operating Wheatland at 20 turns per week. I'm  
15 sure you all realize what I mean when I say "turns,"  
16 and really what it is is shifts. Twenty shifts per  
17 week is the maximum. If you run three shifts per day  
18 times seven weeks, you need one shift just for  
19 maintenance. So 20 turns per week would be 100  
20 percent of capacity.

21 We operated the Wheatland mill at 100  
22 percent of capacity prior to this flood of imports  
23 from China. We were operating the Sharon mill on 15  
24 to 20 turns per week, or 75 to 100 percent of  
25 capacity, and the Warren plant at 75 percent of

1 capacity at 15 turns.

2 So what we have today, after this flood of  
3 Chinese imports, is the Wheatland mill is operating at  
4 about 15 turns, or 75 percent of capacity. Our Sharon  
5 plant is operating at four and a half turns, or  
6 roughly 22 percent of capacity, and as a result, we've  
7 had to lay off 250 workers, mostly in Sharon, although  
8 some have occurred at some of our other plants.

9 Now, there is one other thing I want to  
10 point out before I conclude my testimony. I'm sure  
11 you all read in the Respondent's brief that we had a  
12 series of price increases in 2003 and 2004. In fact,  
13 we did, and we were able to pass along huge price  
14 increases in our basic raw material, which is hot-  
15 rolled coil. Hot-rolled coil, in that time frame,  
16 increased from approximately \$240 per ton to the high  
17 780's, so the price of our main material increased --  
18 really tripled, and we were able to pass along these  
19 price increases. If we weren't able to pass along  
20 these price increases, we wouldn't be here today.

21 What we're faced with now is we are now  
22 getting further price increases from our vendors on a  
23 product that is 70 percent of our cost. The flat-  
24 rolled mills announced in September \$60 a ton. We are  
25 paying \$60 a ton higher in September, and we're faced

1 with another \$30 per ton in price increases in flat  
2 rolled in October for orders we've already placed for  
3 next month.

4 So what we're faced with is really a  
5 situation where we've announced one price increase --  
6 we don't even know if it's going to go through -- of  
7 \$60 a ton on Grade B pipe, but this is less than 15  
8 percent of our total sales of standard pipe, and on  
9 all of the other products, sprinkler fence, CW pipe,  
10 we're not able to raise prices because we just can't  
11 lose any more volume, or we're going to have to lay  
12 off more people, and probably if we don't get  
13 significant 421 relief, I'm here to tell you that  
14 we're probably going to have to shut down the Sharon  
15 mill, and there's another 400 workers there.

16 So that really concludes my testimony. I  
17 just want to thank you for the opportunity to come and  
18 tell our story, and we ask you for a quota on Chinese  
19 imports of 90,000 tons per year. Thank you.

20 MR. BOGGS: Good morning, Chairman Koplman  
21 and members of the Commission. For the record, my  
22 name is Will Boggs. I'm vice president of fire  
23 protection and fence at Allied Tube and Conduit. I've  
24 been in the pipe and tube industry for 29 years, the  
25 last 11 being at Allied.

1 Allied expanded its product range and  
2 geographic coverage significantly and reduced freight  
3 expenses by purchasing American Tube in Phoenix,  
4 Arizona, in 1997 and Century Tube in Pine Bluff,  
5 Arkansas, in late 2001. We also have plants producing  
6 the subject products in Harvey, Illinois, our  
7 headquarters, and in Philadelphia, Pennsylvania. We  
8 have distribution centers in Houston, Texas, and  
9 Fullerton, California, to be close to our customers  
10 and also take advantage of bulk freight rates from  
11 time to time.

12 In my 29 years of being in this business,  
13 I've seen many ebbs and flows of pipe imports, but  
14 I've never seen anything like the onslaught of pipe  
15 imports like those from China in the past year. While  
16 previous import competition is severe at times, the  
17 Chinese pricing of pipe imports is the first time I've  
18 ever seen it where their prices are consistently below  
19 our raw material prices. As a result, even though I  
20 did drop prices significantly in the first half of  
21 this year to keep our distributors competitive with  
22 major distributors of Chinese products, we still lost  
23 significant sales and volume, and I've reported these  
24 lost sales to the Commission.

25 However, our reporting of data to the

1 Commission stopped at the end of June. I can tell  
2 you, since, for Allied, the third quarter has been the  
3 worst quarter in terms of volume, prices, and  
4 profitability. Again, this is the direct result of a  
5 massive surge of imports from China in the second  
6 quarter of 2005, which has continued into the third  
7 quarter.

8           As to profits at Allied Tube, we only  
9 represent about 2 to 3 percent of our parent company,  
10 Tyco International's, total sales revenues, but our  
11 profit declines were so dramatic that Tyco had to  
12 include them in an earnings warning for the third  
13 quarter of 2005. On that day, our stock price went  
14 down 9 percent, for approximately a \$3 billion market  
15 value.

16           The Chinese, in their prehearing brief, have  
17 told the Commission that they predict with certainty  
18 that the industry's profits are going to surge in the  
19 second half of this year. Now, let me tell you the  
20 reality caused by the Chinese imports.

21           First, in our sprinkler business, our prices  
22 have fallen by \$400 in the last year, \$400 a ton.  
23 That is way more than our steel costs have dropped,  
24 because they did for a little while, and now they are  
25 heading back up, and combined with high energy and

1 transportation costs that are going through the roof,  
2 this segment will be down from the second quarter and  
3 down 80 percent compared to a year ago.

4 Second, in our fence business, our prices  
5 are down 200-plus dollars a ton, and our profits are  
6 down from the second quarter 60 percent compared to  
7 the third quarter of just last year. I already know  
8 the fourth quarter is going to be lousy. Why? Our  
9 customers have large amounts of Chinese import  
10 inventory, and I know that some of them have already  
11 placed big orders for November and December arrival.  
12 So I don't see any possible improvement until next  
13 year if we win these cases.

14 Needless to say, as a part of the large  
15 conglomerate we are, our ability to obtain funds from  
16 the parent company for acquisitions or capital  
17 expenditures will be severely curtailed in direct  
18 relation to our declining profitability.

19 One thing I can inform the Commission of  
20 with certainty is that the Chinese are not eating our  
21 lunch in the U.S. market because they are better at  
22 producing pipe than we are at Allied. Our  
23 Philadelphia plant, for example, we believe to be one  
24 of the fastest ERW mills in the world. We run tubing  
25 there. We in-line galvanize fence tubing at line

1 speeds of 600 feet per minute. We run small-sized  
2 conduit, galvanized in line, U.L. approved when it's  
3 all done, at speeds over 1,000 feet a minute.

4 I would like to invite you to take a visit  
5 to our Philadelphia plant. It's a short ride up I-95  
6 here.

7 In amazing contrast, when I visited pipe  
8 mills in China, I saw black pipe run from strip at  
9 about 60 feet a minute. Each pipe was hand cut, taken  
10 to a galvanizing pot, submerged in zinc by hand,  
11 removed by tongs, and it's obvious that the Chinese  
12 don't have efficiency in mind; what they have is  
13 keeping people busy and hitting production quotas.

14 I'll also add that the Chinese mills; they  
15 are importers, and their final U.S. customers cannot  
16 make the argument that they flooded into the U.S.  
17 market during mid-2004 because the domestic industry  
18 could not supply the market. Our customers, and two  
19 of our largest ones are here today, can tell you,  
20 Allied has always been a reliable supplier for both  
21 fence and sprinkler pipe and was so all throughout  
22 2004 as well.

23 With plummeting profits and declining  
24 production, there is no question that Allied, if these  
25 trends continue even for a little bit longer, will be

1 forced to shut down some of our facilities so the ones  
2 that remain would be more effective. This will not  
3 only be harmful to our hard-working people but also to  
4 our customers because they will no longer have us  
5 operating in close proximity to them and giving the  
6 good service that Allied has given over the years.

7 I ask you not to allow this to happen but,  
8 instead, to recommend meaningful quota relief from the  
9 onslaught of Chinese imports. Thank you very much.

10 MR. PERRINE: Good morning, Chairman Koplan  
11 and members of the Commission. For the record, my  
12 name is Bill Perrine. I am president and CEO of  
13 Sharon Tube.

14 Sharon Tube Company was founded in 1929 and  
15 has been in continuous operation for over 75 years.  
16 We're a privately held company. Our original facility  
17 produced one-eighth-through-three-eighths, butt-weld,  
18 A-53 pipe. We have made numerous technological  
19 improvements to our processes and invested in excess  
20 of \$100 million in our company over the years. As a  
21 result, we increased our production capability to  
22 include half-inch, three-quarter-inch, and one-inch A-  
23 53 pipe, as well as other tubing products, including  
24 drawn-over-mandril mechanical tubing and stainless  
25 pressure pipe.

1                   We have production facilities located in  
2 Sharon, Wheatland, and Farrell in Pennsylvania and in  
3 Brookfield and Niles, Ohio. Our total employment  
4 currently exceeds 500 employees. Our continuous-weld  
5 mill is located in our Sharon facility and  
6 historically employed approximately 150 people in this  
7 particular product line. This mill is one of three  
8 remaining mills of its type in the United States. The  
9 other two mills produce larger sizes of pipe and are  
10 both owned by Wheatland Tube Company and are also  
11 located in the Sharon area.

12                   I have been employed by Sharon Tube Company  
13 since 1971. When I began working for Sharon Tube  
14 Company, there were more than 20 of these mills  
15 operating in the United States. We continue to exist  
16 due to our reinvestment in technological improvements  
17 in our processes and to the efforts of our hard-  
18 working, productive employees.

19                   We have historically scheduled our  
20 continuous-weld mill and finishing operations on a 24-  
21 hour-per-day basis, typically four days per week and  
22 occasionally five days per week. This has been the  
23 pattern since about 1999. The years 2000 through 2003  
24 were fairly consistent and based on operating hours as  
25 well as tons produced. During the second half of

1       2004, our production requirements deteriorated  
2       significantly, and in September, we reduced our  
3       employment from our typical 150 employees to  
4       approximately 100 employees, either through transfers  
5       to other product lines or layoffs as required.

6               In effect, we have reduced our operating  
7       schedule from 96 hours per week to 64 hours per week.  
8       This schedule continues today, and we expect further  
9       reductions in the future based on our forecast for  
10      product demand. It is interesting to note that the  
11      Chinese pipe imports were approximately 9,500 tons in  
12      2002; 90,000 tons in 2003; 266,000 tons in 2004, which  
13      is about triple that rate of 2003; and 182,000 tons in  
14      the first six months of 2005, and that's another 40-  
15      percent increase over 2004.

16              We believe there is a direct correlation  
17      between the Chinese imports statistics and our  
18      operating levels. Our markets for A-53 pipe include  
19      other pipe manufacturers, distributors, and end users.  
20      In the past, we have typically provided significant  
21      volumes of our smaller-diameter pipe sizes to other  
22      pipe mills. This is because we're more efficient in  
23      producing these smaller sizes, and they are more  
24      efficient in producing the larger sizes. However,  
25      many of these mills have been sold or have gone out of

1 business. We supplied significant volumes of these  
2 sizes to Wheatland Tube until 2004. At that time,  
3 they elected to produce these sizes internally because  
4 of the decline in the U.S. market that we all  
5 experienced.

6 Our largest market is through national and  
7 regional distributors, such as Ferguson, Kelly Pipe,  
8 McJunkin, and many others who stock and resell our  
9 product with variety of other products for plumbing,  
10 heating, ventilating, and air conditioning,  
11 mechanical, and other industrial uses. Many of these  
12 distributors have begun using Chinese pipe. Those  
13 distributors that have not been purchasing Chinese  
14 pipe are losing business to the distributors who are  
15 stocking the Chinese pipe.

16 Some distributors reported that they have  
17 actively reduced inventories late in 2004 and  
18 continuing into 2005. This destocking could have  
19 negatively affected our sales during this period;  
20 however, the statistics show that Chinese imports  
21 continued at high levels during this period and then  
22 surged to their highest levels yet in the second  
23 quarter of this year.

24 Mr. Pete Dooner has already described some  
25 of the issues facing operators of continuous-weld

1 mills. Because our furnace has to be preheated every  
2 time we restart the mill, and considering that our  
3 costs for natural gas have tripled since last year,  
4 operating our continuous-weld mill on a three-day-per-  
5 week basis is not an acceptable long-term solution.  
6 We also have a zinc block that must be kept hot using  
7 natural gas 24 hours a day and seven days a week.  
8 With natural gas prices over \$10 an MCF, our cost for  
9 galvanizing is soaring. This department is currently  
10 operating on a 40-percent-of-capacity basis.

11 It's not like our ERW mills in Niles, Ohio,  
12 where we can restart the mills by merely turning the  
13 electricity on. If we do not see relief on the  
14 horizon from Chinese imports, we will have to  
15 reconsider the continued operation of our continuous-  
16 weld mill.

17 Having lived in Mercer County in the  
18 Shenango Valley all of my life, I can tell you that  
19 the closure of our pipe mills will have a devastating  
20 impact on our area. This would be a shame because  
21 this is a great area in which to live and raise a  
22 family, and we have a great group of employees, some  
23 of which are sitting in the back of the room here with  
24 us today.

25 Our company has been through a lot of tough

1 times in the past, including our opening for business  
2 during the Great Depression in 1929. There is no  
3 depression in the United States now. We are trying to  
4 compete with Chinese pipe that lands on our shores at  
5 selling prices below our raw material input costs.  
6 This cannot be fair trade.

7 Our problem is imports from China, and we  
8 respectfully ask you to start the process of solving  
9 that problem. Thank you.

10 MR. TERAQ: Good morning, Chairman Koplan  
11 and members of the Commission. For the record, my  
12 name is Goro Terao, and I am president and chief  
13 executive officer of Western Tube and Conduit in Long  
14 Beach, California.

15 I have been in the pipe and tube industry  
16 for 24 years in Sumitoma and took over as the  
17 president of Western Tube in June 2004.  
18 Unfortunately, my timing was not very good, as I began  
19 my position just as our business started declining.  
20 Don Finn, our vice president of sales, who has been  
21 with Western Tube for 39 years, accompanies today.

22 At Western Tube, we produce fence tube as  
23 well as conduit and mechanical tubing. We have always  
24 be a world leader in galvanized pipe production. In  
25 addition to two older weld mills capable of in-line

1 galvanizing, we added a third new, in-line-galvanizing  
2 mill in 2002 at the cost of \$10 million, and this  
3 newest mill is faster and better than the two existing  
4 mills, reducing production costs and improving  
5 quality.

6 At Western Tube, we generally operated all  
7 three of our galvanizing mills five days a week, 24  
8 hours a day, from 2002 to mid-2004. Then in July  
9 2004, we had to cut back our operation to operating  
10 only two mills at the time because of the imports  
11 surge from China.

12 We have a policy of not laying off any  
13 employees. Instead, we have reduced all employee  
14 hours by one-third since July 2004.

15 In the first half of 2005, our fence sales  
16 fell 36 percent. This is only because of Chinese  
17 imports. I asked Mr. Finn, vice president, sales, of  
18 Western Tube, at the beginning of 2005 if we should  
19 cut our prices in order to pick up volume to better  
20 utilize our mills and employees. He told me it would  
21 not be good to cut prices because the Chinese price  
22 was below our cost of steel and zinc. Therefore, we  
23 are facing a major problem, and we are having trouble  
24 finding an adequate business solution to this problem.

25 West Coast producers in the Los Angeles area

1       enjoy many competitive benefits. First and foremost,  
2       the California market is very large. Second, we have  
3       access to imported steel through the Port of Long  
4       Beach, and the California steel industry is located  
5       only 50 miles away from our mill. Also, freight and  
6       loading costs for pipe are much higher than they are  
7       for steel. Under normal market circumstances, this  
8       should give me a competitive advantage over imported  
9       pipe. Finally, we have a very good workforce in our  
10      mills, such as Western and Maruichi, which are world  
11      class in terms of quality.

12                On behalf of our 258 employees at Western  
13      Tube and Conduit, we are asking for you to make an  
14      affirmative determination. We have struggled and  
15      believe that our only hope is a -- intervention by the  
16      U.S. government. Thank you very much.

17                MR. VIVIAN: Chairman Koplan and members of  
18      the Commission, good morning. My name is Paul Vivian,  
19      and I am marketing manager for energy products at  
20      Maverick Tube Corporation. I'm accompanied today by  
21      Neal Lux, our marketing manager for line and standard  
22      pipe.

23                I have been in the pipe and tubing industry  
24      for 26 years and with Maverick Tube for six years.  
25      Maverick's primary product is oil country tubular

1 goods. We are one of the largest producers in North  
2 America and the world of OCTG. Maverick had always  
3 produced some standard pipe; however, in 2002, we  
4 purchased the LTV Tubular assets out of the LTV  
5 bankruptcy proceedings. LTV Tubular had been a major  
6 producer of standard pipe, line pipe, and electrical  
7 conduit.

8 Three months after the acquisition, we  
9 determined that we had too much standard and line pipe  
10 capacity in Maverick Tube compared to the market  
11 demand available for domestic product, and we  
12 announced the closure of our Youngstown, Ohio, plant  
13 that we had acquired. The plant was closed in mid-  
14 2003, reducing capacity by 180,000 tons.

15 We have invested heavily in upgrading our  
16 Counts, Tennessee, plant since the acquisition. The  
17 facility produces only standard and line pipe. We  
18 cannot produce OCTG in this plant, so unlike  
19 allegations of product shifting to OCTG, we simply  
20 cannot do this in Counts. The mill capability and  
21 equipment are not there.

22 Since the surge of standard pipe imports,  
23 our production and sales from Counts have plummeted.  
24 We had been running two shifts a day in Counts since  
25 the time of the purchase until early 2005, when we had

1 to cut back to one shift and lay off 40 percent of our  
2 workforce. Counts has an excellent pipe mill, a very  
3 productive, United Steelworker workforce, and is in a  
4 great location in terms of both freight costs for  
5 purchased steel and excellent connections to the  
6 southeast and eastern markets for standard pipe  
7 shipments by rail, barge, and highway.

8 How can we react to even higher imports of  
9 standard pipe from China at prices below our cost?  
10 There is only one more possible reduction from a one-  
11 shift-a-day operation, and that is to zero shifts or  
12 plant closure.

13 I know that the Chinese utilized Maverick  
14 10-Q statements in their prehearing brief. I would  
15 like to comment on some of that information. For  
16 example, in our most recent 10-Q, filed on August 9,  
17 we noted that our average selling price for OCTG line  
18 pipe and standard pipe in the second quarter of 2005  
19 increased by 24 percent, 13.3 percent, and 4.6  
20 percent, respectively, compared to the second quarter  
21 of 2004.

22 Thus, in spite of relatively common costs,  
23 our OCTG product prices increased by five times as  
24 much as standard pipe, and the line pipe prices  
25 increased by three times as much as standard pipe.

1 The same 10-Q notes that our average cost of steel was  
2 60 percent higher in the second quarter of '05 than it  
3 was in the second quarter of '04. While we note that  
4 we expect lower-cost steel to benefit our income in  
5 the third and fourth quarters of '05, it is obvious  
6 that it would not benefit our standard pipe business,  
7 which is a small and, unfortunately, ever smaller  
8 share of our business because standard pipe prices  
9 have never come along to covering the increased steel  
10 costs to begin with.

11 Since I have an economics background, I  
12 would also like to note that I was shocked at the  
13 simplistic price-and-demand analysis made in the  
14 Respondents' brief. Our demand elasticity for OCTG is  
15 strikingly similar to that for standard pipe.  
16 Decisions as to whether or not to drill and oil or gas  
17 well are based primarily on the price of the oil and  
18 gas commodity, and the tubular component of the cost  
19 of drilling is well under 5 percent. Thus, while our  
20 OCTG prices are up more than standard pipe prices,  
21 OCTG demand was up approximately 20 percent in the  
22 first half of 2005.

23 In the nonresidential construction where our  
24 standard pipe is utilized, the cost of pipe in the  
25 construction of a building is probably less than 2 to

1 3 percent of the total cost. What drives demand are  
2 the greater drivers of nonresidential construction,  
3 such as demand for office space, retail space, high-  
4 rise condominiums, et cetera. Unlike the strong  
5 demand from the nonresidential construction market was  
6 essentially flat this year compared to last. We think  
7 that the observed decrease and apparent demand were  
8 largely caused by distributors having such high  
9 inventories on hand of standard pipe, of Chinese pipe  
10 and significant future orders that they decided to  
11 destock higher priced domestic products from their  
12 warehouses.

13 We know this is what happened to Maverick  
14 and in fact it caused us to decrease production to the  
15 point that we would not produce standard pipe for  
16 inventory because our distributors did not want to buy  
17 this pipe from our inventory. They dramatically cut  
18 their purchases from us and increased their purchases  
19 of Chinese product at lower prices.

20 For Maverick Tube there is no end in sight  
21 to this problem until action is taken on Chinese  
22 imports.

23 On behalf of Maverick Tube, but in  
24 particular on behalf of all of our USW employees at  
25 our Counce, Tennessee, plant, both those still working

1 and those on layoff, we ask that this Commission make  
2 an affirmative determination that imports from China  
3 are the cause of a market disruption to the U.S.  
4 industry and recommend quotas at levels that will  
5 allow us to resume adequate levels of production in  
6 our facilities and to keep our workers employed.

7 Thank you very much.

8 MR. BARNES: Good morning, Chairman Koplan,  
9 and members of the Commission. For the record, my  
10 name is Scott Barnes and I'm vice president,  
11 commercial, for IPSCO Tubulars, Inc. I've been in the  
12 pipe industry for 25 years and with IPSCO for 20. At  
13 IPSCO we produce standard pipe in Camanche, Iowa, and  
14 Blytheville, Arkansas.

15 Both of these plants are located on the  
16 Mississippi River. At both locations we have very low  
17 inbound and outbound steel freight costs. We have a  
18 very efficient plant and our mill in Blytheville is  
19 unquestionably one of the fastest ERW mills in the  
20 world.

21 Located in the center of the country our  
22 facilities are within easy freight distance of \$20 to  
23 \$50 per ton for the U.S. standard pipe markets on the  
24 east coast, the west coast, the gulf coast and the  
25 midwest.

1                   That is why we're located where we are.  
2           Now, while \$50 in freight may sound like a lot it  
3           really isn't when you compare it to the costs incurred  
4           by the Chinese for ocean freight, port unloading  
5           charges and inland freight that the importers must  
6           bear after arrival at the port.

7                   Even with all these costs adding up for our  
8           Chinese competitors I run up against Chinese standard  
9           pipe in the greater Chicago area, Wisconsin and  
10          Minnesota. There seems to be virtually no place in  
11          the entire United States that the Chinese products and  
12          their U.S. importers are not willing to swallow the  
13          freight and still massively undercut U.S. price  
14          levels.

15                   IPSCO has decided not to chase these Chinese  
16          prices down and as a result you'll note in our  
17          questionnaire response that our standard pipe sales  
18          have fallen roughly in half compared to last year.  
19          That really is an amazing occurrence when you consider  
20          the extremely competitive U.S. producers selling into  
21          a strong market, such as we are.

22                   I hate to sound redundant to all of the  
23          other witnesses, but we constantly see Chinese pipe  
24          being offered for sale at or near our cost of raw  
25          materials. Looking forward we see no real end in

1 sight. Our standard pipe order books are not  
2 improving and Chinese pipe continues to enter all of  
3 the standard pipe markets in large volumes.

4 That's why we're here asking for an  
5 affirmative decision. Thank you.

6 MR. CONWAY: Good morning, Chairman Koplan,  
7 members of the Commission. My name is Thomas Conway,  
8 I'm vice president, International Union of United  
9 Steel Workers. I appreciate the opportunity to appear  
10 before you again.

11 As we've stated in a position we represent  
12 the vast majority of workers in the standard pipe  
13 industry and we also represent most of the workers in  
14 the steel mills that supply the pipe producers with  
15 steel.

16 As you've heard from the members of Congress  
17 the American steel workers laid off from their jobs  
18 due to the massive surge of this Chinese pipe have  
19 qualified for trade adjustment assistance, but what do  
20 these workers in Sharon, and Wheatland, and Warren,  
21 Ohio, supposed to do with this PAA?

22 It's not going to get them another skilled  
23 job where they can make the \$40,000 to \$50,000 a year  
24 they were making, it's not going to get them  
25 healthcare and pension benefits, it's not going to be

1       there.  They're not going to get jobs with WCI Steel  
2       or Wheeling Pitt Steel because those companies are  
3       going to lose jobs as they lose their pipe customers.

4               What's going to happen to these people is  
5       they're going to have their homes foreclosed on,  
6       they're going to have their cars repossessed, they're  
7       not going to be able to cover their kids' tuition  
8       bills and kids' loans who go to college and they're  
9       going to lose their health insurance.

10              That's the plight of what happens to  
11       American workers when they lose their job because of  
12       imports.  CAA is not solving that problem for them.  
13       As you know, our union has lost a significant number  
14       of jobs in this industry.  We lost several hundred  
15       jobs at LaClede Steel in East Alton, Illinois, when it  
16       shut down at the end of 2001.

17              We then tried to work hard with investors to  
18       restart that mill and rehire those workers, but only  
19       the melt and the bar shop ever came back.  We were  
20       never able to restart the pipe mill in Alton, we were  
21       never able to restart the pipe mill in Fairways Hills,  
22       Pennsylvania, and as you've heard we've lost hundreds  
23       of jobs at Wheatland Tube and Sharon Tube already and  
24       at the former LTV Youngstown plant.

25              Now these producers are publicly admitting

1 that without this relief more plant closures are  
2 imminent, plant closures that will affect people  
3 sitting in this room, the steel workers who traveled  
4 here today. These are good, decent employers and in  
5 the case of Wheatland and Sharon have been in business  
6 for 175 years respectively.

7           They've been investing in their plants,  
8 they've been good corporate citizenships. Let me tell  
9 you by closing that I was curious to find out what  
10 happened to these 421s. We've been familiar with the  
11 other procedures where you find injury and the  
12 President says no, so I had my staff retrieve  
13 information from the previous investigations.

14           In the ductile iron waterworks fittings  
15 industry, a case where we represented most of the  
16 industry workers, U.S. Pipe stopped producing the pipe  
17 in Chattanooga and we lost 300 jobs. McEwen is  
18 building a foundry to make the product in China and  
19 when it's up and running they'll probably close one or  
20 two foundries in the U.S.

21           In the wire environment hangers the  
22 industry's counsel has told us that three of the six  
23 producers exited the business, 12 of 15 plants have  
24 been closed and almost 1,000 jobs lost. So there's  
25 real human sacrifice when a President says yes to

1 China and no to America.

2 I'm going to deviate a second from my  
3 script. As I was preparing for this and meeting the  
4 steelworkers who were impacted by this I met and  
5 talked with guys who know a young man by the name of  
6 Tom Ruddich. Tom got activated as a reservist. Made  
7 that sacrifice, his family is sacrificed.

8 He went to Iraq, he came back, he has no  
9 job. The plant has laid him off. He's lost his job  
10 due to Chinese imports when he returns from the  
11 service. I mean, there's too many things going wrong  
12 here. So on behalf of the workers in the standard  
13 pipe industry I ask you to vote for the maximum quota  
14 relief possible so we can get our members back to  
15 work, and in the street and stabilize it. It needs to  
16 be. Thanks very much.

17 CHAIRMAN KOPLAN: Thank you, Mr. Conway.

18 I want to welcome the many steelworkers who  
19 are attending the hearing, and they're in the back of  
20 the room. Welcome to our hearing.

21 You may proceed, Mr. Schagrín.

22 MR. SCHAGRIN: Thank you, Mr. Conway. Thank  
23 you, Chairman Koplan. We're now very pleased to  
24 introduce three customer witnesses. I think it's a  
25 testament to how dire the situation is for the U.S.

1 industry. Normally in pipe cases we're not able to  
2 obtain customer witnesses.

3 It's not easy in almost any case to get  
4 customer witnesses on the domestic side, so we're  
5 pleased that they are here to tell you their  
6 experiences in the marketplace. We're extremely  
7 appreciative that they came to appear at this hearing  
8 today.

9 Mr. Miller?

10 MR. MILLER: Good morning, Chairman Koplan,  
11 and members of the Commission. For the record, my  
12 name is Tim Miller, I'm vice president of supply chain  
13 management for Master Halco. I've been in the fence  
14 business for 32 years and with Master Halco for 29.  
15 We're a manufacturer and distributor of fence products  
16 and security perimeter solutions to the contractor  
17 trade and home retail industry.

18 We manufacture chainlink fabric fence  
19 settings, ornamental iron fence, gates and kennels.  
20 We have seven manufacturing locations and have 45  
21 distribution branches in the continental United States  
22 and Canada. We purchase pipe and tube to resale as  
23 part of our complete fencing system. We're the  
24 largest purchaser of fence tubing in the United States  
25 and we buy both domestic and imported products.

1           Let me tell you what's happened to our  
2 domestic purchases over the last few years and why  
3 it's happened. We're buying one-third less tons from  
4 domestic producers than we did five years ago. There  
5 are two major reasons for this. First, our business  
6 has declined due to a major retail account shifting a  
7 large portion of its business to a competitor who  
8 purchases almost exclusively Chinese products.

9           Second, in order to remain competitive with  
10 other fence distributors we've been forced to increase  
11 our purchases of Chinese imports and decrease our  
12 domestic purchases. Chinese prices are approximately  
13 20 to 30 percent below the domestic prices. I'm here  
14 today to support domestic suppliers because I believe  
15 it's important for Master Halco to retain domestic  
16 sources on our supply chain.

17           Domestic producers give us the ability to  
18 stock less inventory than if we had to purchase all  
19 import. This is important to an operation with 52  
20 locations. Domestic suppliers also give us the  
21 ability to react more quickly to any sudden increased  
22 supply requirements from our customer base.

23           For example, there is likely to be an  
24 immediate need for more fencing and security perimeter  
25 systems in the gulf coast as the rebuilding begins.

1 We can source domestic product more quickly than we  
2 can Chinese product.

3 Finally, with seven manufacturing facilities  
4 whose end products are related to the sales of fence,  
5 pipe and tube, and as a senior executive of our  
6 company I would not like to see our heavy investment  
7 in manufacturing assets completely dependent on a  
8 supply chain over 5,000 miles away.

9 With the present large price discrepancies I  
10 believe it's doubtful that our domestic suppliers can  
11 continue to be dependable suppliers to Master Halco in  
12 the future without relief. Thank you for the  
13 opportunity to speak here today.

14 MR. THOMPSON: Good morning, Chairman  
15 Koplan, and other members of the Commission. For the  
16 record, my name is John Thompson, I'm the director of  
17 planning and procurement for the Merchant Metals  
18 division of MMI Products, based in Houston, Texas.  
19 Merchant Metals is the largest manufacturer of  
20 chainlink fence fabric and the second largest  
21 distributor of fencing products in the United States.

22 We have five manufacturing plants and 48  
23 silver centers located in the U.S. Our customer base  
24 consists primarily of fencing contractors, although we  
25 do some home center business as well. I have been in

1 the fence industry for 29 years.

2 I was an importer in the late 1970s, a  
3 commercial estimator in the early 1980s, a silver  
4 center manager during the mid-1980s and I've been  
5 involved with planning and procurement of fencing  
6 products since 1987. The fence, pipe and tubes that  
7 we distribute are commodity products.

8 Whether they're imported or domestically  
9 produced they are manufactured, and meet the same  
10 specifications and meet ours and our customers' needs.  
11 That is true of all of the imported pipe and tube that  
12 we purchase including the Chinese product. The fence  
13 industry is a very competitive one.

14 We compete with other distributors who sell  
15 Chinese and other imported pipe and tube along with  
16 other components such as chainlink fence and fittings,  
17 et cetera, that are either domestic or imported. If  
18 our competitors are able to offer lower prices because  
19 they have cheaper Chinese pipe then I have to take  
20 procurement steps to take keep our salespeople  
21 competitive by doing the same thing.

22 In 2004 and in 2005, year-to-date, that has  
23 meant buying more Chinese pipe and less domestic.  
24 Given the price spreads I'm not going to be  
25 competitive by buying only domestic products.

1           We like our domestic suppliers and we prefer  
2           to buy our products domestically, that's why we're  
3           here today, but unless the government changes the  
4           rules there's no doubt in my mind that we'll have to  
5           continue our increased purchases of Chinese pipe to  
6           remain competitive. Thank you.

7           MR. STRITTMATTER: Good morning, Chairman  
8           Koplan, and members of the Commission. For the  
9           record, my name is Donald Strittmatter and I am  
10          president of the Ideal Supply Company, a Jersey City,  
11          New Jersey-based docking distributor of pipe valves  
12          and fittings. The company has been in business since  
13          1930 and I have been with the company for 34 years.

14          Ideal Supply services the high-rise,  
15          commercial and residential markets of New York City,  
16          it's surrounding area and New Jersey. Our customer is  
17          the mechanical contractor installing HVAC piping  
18          systems. Ideal purchases only domestic ASTM A-53 pipe  
19          for inventory from Wheatland, U.S. Steel and several  
20          massive pipe distributors.

21          As we are our customer base is union  
22          oriented requiring only domestic product where  
23          possible. Twenty years ago 20 percent of New York  
24          City's high-rise construction was nonunion. Today  
25          nonunion work is in excess of 60 percent. Through the

1 bidding process we compete for both union and nonunion  
2 work.

3           Where union mechanical contractors are  
4 involved we are competitors. In the case of nonunion  
5 contractors accepting other than domestic material we  
6 are not competitive. Carbon Steel ASTM A-53 domestic  
7 pipe is our major product of sale. We have  
8 encountered and are encountering a significant  
9 increase in foreign product in our marketplace, much  
10 of which is China produced.

11           The cost difference between domestic and  
12 China pipe at our purchasing level is upward of 30  
13 percent. Some of our competitors have dual  
14 inventories of pipe, both foreign and domestic. We  
15 maintain a domestic pipe inventory as domestic pipe  
16 means the continuance of a domestic industry and  
17 domestic jobs.

18           How much longer we can remain domestic is  
19 difficult to tell. Most all of the product we  
20 inventory is domestically produced. We do however  
21 purchase foreign products from U.S.A. companies who  
22 have elected for competitive reasons to manufacture in  
23 other countries, primarily China.

24           New York City is on the verge of a  
25 construction boom that will exceed \$200 billion over

1 the next seven to 10 years. Currently in the New York  
2 City area there are 72 high-rise buildings under  
3 construction. A major aspect of this construction  
4 boom will be the rebuilding of the World Trade Center.

5 We are hopeful of playing a major role in  
6 this construction furnishing domestic product,  
7 especially domestic pipe. It would be an injustice to  
8 have the Freedom Tower, the first building of the  
9 World Trade Center, constructed with foreign pipe. It  
10 is not enough to protect our domestic pipe industry,  
11 we must find the means of encouraging its further  
12 developments.

13 I am pleased to have the opportunity to  
14 present this testimony. I hope it's helpful. Thank  
15 you.

16 MR. SCHAGRIN: Thank you, Mr. Strittmatter.

17 Mr. Chairman, we're also very pleased today  
18 to be joined by executives from four of the steel  
19 companies that supply most of the flat rolled steel to  
20 this industry. We're pleased to have their support,  
21 and we think that their testimony will benefit the  
22 Commission.

23 Mr. Page?

24 MR. PAGE: Good morning. I'm Harry Page,  
25 the president and chief operating officer of Wheeling

1 Pittsburgh Steel Corporation. I've been associated  
2 with the production of flat rolled strip steel for 37  
3 years. Wheeling Pittsburgh Steel is headquartered in  
4 Wheeling, West Virginia, and has major manufacturing  
5 facilities located in West Virginia, Ohio and  
6 Pennsylvania.

7 We annually shift 2.2 to 2.4 million tons of  
8 finished flat rolled steel product. Wheeling  
9 Pittsburgh has 3,100 active employees and more than  
10 10,000 retirees and their families who depend on our  
11 own success and the success of our customers. Some of  
12 our most important customers are standard pipe  
13 producers to whom we ship 25 percent of hot rolled  
14 steel shipments.

15 A large share of these customers are located  
16 within a radius of 200 miles of our manufacturing  
17 facility providing both Wheeling Pitt and our  
18 customers with a short and efficient supply chain.  
19 Wheeling Pittsburgh Steel knows firsthand the impact  
20 that surging imports can have.

21 Massive increases in steel imports resulted  
22 in our filing for Chapter 11 bankruptcy in November of  
23 2000. We were able to emerge from bankruptcy  
24 protection as a standalone company in 2003 only  
25 because of extreme sacrifices that were made by our

1 employees, our suppliers and the communities in which  
2 we operate.

3 If unrestrained imports of standard pipe  
4 from China are allowed to continue I am certain that  
5 the companies that make up the standard pipe industry  
6 will be financially devastated. Thousands of  
7 employees will lose their jobs, and their healthcare  
8 and their communities will suffer major damage to  
9 their tax base.

10 The damage of continued unrestrained  
11 standard pipe imports from China goes well beyond the  
12 companies represented in this petition. As a steel  
13 supplier to this industry Wheeling Pittsburgh Steel  
14 would be dealt another cruel blow at the hand of  
15 unrestrained steel imports.

16 That's because if these customers who  
17 currently make up 25 percent of our hot roll business  
18 are allowed to be devastated Wheeling Pittsburgh and  
19 its 3,100 employees, its 10,000 retirees and the  
20 communities in which we live and work would be dealt a  
21 significant financial blow as well.

22 Wheeling Pittsburgh Steel and its employees  
23 work together, sacrifice together and built a  
24 stronger, more efficient company that was able to  
25 successfully emerge from bankruptcy.

1           On behalf of our employees, our communities  
2           in West Virginia, Ohio and Pennsylvania, I ask that  
3           you vote in favor of maximum relief for the standard  
4           pipe industry, and for the thousands of employees and  
5           retirees of Wheeling Pittsburgh Steel who will be  
6           directly affected by your decision. Thank you.

7           MR. TATOM: Good morning, Mr. Chairman, and  
8           members of the Commission. For the record, my name is  
9           Pat Tatom and I am president and CEO of WCI Steel. I  
10          have been in the steel industry for the past 30 years,  
11          the last 17 of which have been spent with WCI Steel.  
12          We are located in Warren, Ohio, with Sharon and  
13          Wheatland's pipe mills between two and 15 miles from  
14          our plant.

15          We are a small mid-steel producer of 1.4  
16          million tons of capacity. While we specialize in  
17          small order quantities of high-carbon, alloy and  
18          ultra-high strength steels we need large quantities of  
19          a low carbon steels to efficiently operate and  
20          schedule our facilities.

21          Traditionally, about one-quarter of our  
22          output has gone to pipe mills. In 2005 this volume  
23          has significantly dropped compared to historic levels.  
24          As we reported to the Bankruptcy Court we lost money  
25          in July. WCI Steel has been in Chapter 11 for the

1 past two years and we employ 1,600 hardworking men and  
2 women.

3 We are struggling to emerge as an  
4 independent company. I would echo Mr. Page's comments  
5 that there is no future for Ohio Valley steel mills  
6 without Ohio Valley pipe mills. I urge the Commission  
7 to give relief to the standard pipe industry.

8 Our ability to exit from bankruptcy and to  
9 remain operating as a steel mill is dependent upon our  
10 ability to sell flat rolled steel to the local pipe  
11 mills. Thank you very much.

12 MR. NOLAN: Good morning, Chairman Koplan,  
13 and members of the Commission. For the record, my  
14 name is John Nolan and I a vice president of Steel  
15 Dynamic, Inc. of Ft. Wayne, Indiana. I have been in  
16 the steel business for over 30 years and I have been  
17 with Steel Dynamics since shortly after its founding  
18 more than a decade ago.

19 For a change I am here this morning as other  
20 than a Petitioner, but I am no less distressed to be  
21 here as a guest of these proceedings than I have been  
22 in the past as a Petitioner in similar proceedings.  
23 I'm here to voice my support for the efforts of the  
24 Petitioners in these very important 421 proceedings.

25 In the following remarks I also speak for

1 and on behalf of the Steel Manufacturers Association  
2 and Mr. Tom Danasheck, its president; the American  
3 Iron and Steel Institute and Mr. Andy Sharkey, its  
4 president; Mr. Dan D'Amico, president and chief  
5 executive officer of Nucor Corporation; and Mr. Keith  
6 Bussey, president and chief executive officer of Steel  
7 Dynamics.

8           This Commission has heard five 421s and it  
9 has decided affirmatively in three. Like Mr. Tom  
10 Conway and the United Steelworkers we are deeply  
11 saddened and deeply distressed that the Bush  
12 Administration has chosen not to provide relief or  
13 assistance to these beleaguered segments of the U.S.  
14 manufacturing community.

15           We sincerely ask that their subjectivity not  
16 affect your objectivity in these extremely important  
17 421 proceedings. Now, when Steel Dynamics began  
18 production at its state of the art Greenfield mill in  
19 Butler, Indiana, in 1996 we were among the first U.S.  
20 steel producers to manufacture large quantities of  
21 light gauge hot rolled sheet.

22           We made hot rolled sheet initially in gauges  
23 down to 1.5 millimeters and later to one millimeter.  
24 Previously, steel users including pipe and tube  
25 producers had to purchase cold rolled sheet in these

1 gauges at a significant extra cost.

2 Our light gauge hot rolled product range was  
3 perfectly suited for customers such as Allied Tube and  
4 Conduit located a short distance away in Harvey,  
5 Illinois, and other of its Tyco International parent's  
6 sister companies. That is because Allied specialized  
7 in the production of light walled galvanized fencing  
8 and light walled sprinkler pipe.

9 As a result Allied Tube and Conduit and  
10 related Tyco companies combined are among our 10  
11 largest customers in most business years.  
12 Furthermore, we sell light gauge galvanized sheet to  
13 producers who used galvanized sheet as an input for  
14 galvanized fence tube.

15 Unfortunately, one of those customers,  
16 Northwest Pipe, shot down their Bossier City,  
17 Louisiana, plant to which we were a key supplier at  
18 the end of last year. When our pipe and tube  
19 customers are buying less steel it means that  
20 producers like Steel Dynamics must find other places  
21 to sell that same steel if we are going to continue  
22 operations.

23 Unfortunately, during the first half of  
24 2005, as I testified during the Hot Rolled Sunset  
25 investigations in February of 2005, we could not find

1 outlets for that additional tonnage, and as overall  
2 demand softened prices for sheet fell substantially in  
3 the U.S. market.

4 We are fortunate to have been bailed out of  
5 our demand predicament most recently by an automotive  
6 industry that has generated all-time record sales by  
7 selling automobiles and light trucks at a significant  
8 financial loss.

9 Consequently, demand for flat rolled has  
10 increased in the second half of 2005 as assemblers and  
11 part suppliers depleted excess steel inventories  
12 created by the late 2004 surge of imports and now need  
13 to replenish some of those inventories during the  
14 fourth quarter of this year.

15 As a result most steel companies institute a  
16 price increase as effective September 1 of \$60 per  
17 ton. These price increases for the most part have  
18 been successful; however, over the long run we cannot  
19 depend upon the automotive industry to sell its  
20 products at a loss to save the domestic steel  
21 industry.

22 Pipe producers are an important and vital  
23 segment of steel demand. If they are put of out of  
24 business by imports from China thus reducing overall  
25 demand for steel it will have serious negative

1       repercussions for Steel Dynamics and for the rest of  
2       the U.S. steel industry.

3               That is why I'm very pleased to appear today  
4       before you in support of the U.S. domestic pipe  
5       industry seeking relief from imports from China.  
6       Thank you very much.

7               MR. COMMELLA: Good morning, Chairman  
8       Koplan, and members of the Commission. My name is Sam  
9       Commella, and I'm the vice president and general  
10      manager of Nucor Steel in Arkansas. I've been in the  
11      steel industry for 25 years including 13 years at  
12      Nucor.

13              Nucor Steel Arkansas is located in Hickman,  
14      Arkansas, on the Mississippi River and came online in  
15      1992 with a Greenfield mini mill producing flat rolled  
16      products. The Hickman facility produces 2.5 million  
17      tons annually of hot rolled, cold rolled and  
18      galvanized sheet.

19              I testify today not only on behalf of my own  
20      plant, but on behalf of the other flat rolled mills in  
21      Nucor Steel. We have five mills that produce hot  
22      rolled sheet and supply it to the pipe and tube  
23      producers. Hot rolled sheet sales to pipe and tube  
24      producers are over 60 percent of our hot rolled  
25      shipments.

1                   There are four customers located in Arkansas  
2 for this hot rolled sheet: Maverick Tube, IPSCO  
3 Tubulars, Wheatland Tube and Allied tube and Conduit.  
4 Two of these four producers are literally located on  
5 land adjoining our steel mills.

6                   Seeing the massive increase in standard pipe  
7 imports from China I realize how lucky we are that two  
8 of the four producers in Arkansas, the Maverick and  
9 IPSCO divisions, are focused on oil country tubular  
10 goods and this has been a buoyant market.  
11 Unfortunately, the other two Arkansas mills, Wheatland  
12 and Allied, do not produce OCTG.

13                   We also ship substantial amounts of sheet to  
14 other producers located outside of Arkansas, and of  
15 course the group of Nucor mills covers virtually the  
16 entire United States. On a nationwide basis Nucor  
17 sheet sales to the pipe and tube industry are  
18 approximately 1.9 million tons.

19                   Thus for example when I hear Paul Vivian of  
20 Maverick talk about the potential shut-down of Counce,  
21 Tennessee, plant, a plant that does not produce OCTG,  
22 I know that will potentially have a significant impact  
23 on our nearby Decatur, Alabama, plant.

24                   Similar production cutbacks in the pipe and  
25 tube mills in Illinois, in Ohio and in Pennsylvania

1 will impact our plants in Crawfordsville, Indiana, and  
2 in Berkeley, South Carolina. Blytheville and Hickman,  
3 as well as the other Nucor flat rolled mills, it's  
4 important to keep costs down by maintaining high  
5 operating rates.

6 To do this you have to have high volumes of  
7 hot rolled steel. These hot rolled sheet steels are  
8 critical to load the mill and pipe and tube customers  
9 are a huge portion of this market. Losing the volume  
10 of our pipe and tube customers negatively affects our  
11 business in terms of volume and pricing.

12 There is a threat of further negative impact  
13 as even more significant volume losses for these pipe  
14 and tube producers mushrooms into plant closings and  
15 further production cutbacks. Nucor supports the  
16 strong enforcement of *all* of our trade laws including  
17 Section 421 and therefore requests that you make an  
18 affirmative determination based on the strong evidence  
19 of an import surge.

20 Granting relief to the pipe industry from  
21 these massive import volumes from China will benefit  
22 the pipe industry, Nucor and our employees. Thank you  
23 for the opportunity to appear here today.

24 MR. SCHAGRIN: Thank you, Mr. Commella. I'd  
25 now like to invite Dr. Robert Blecker, a Ph.D.

1 economist from Stanford where he obtained his Ph.D.,  
2 like Dr. Prusa, and a professor of economics at  
3 American University to present his economic analysis.

4 Dr. Blecker?

5 DR. BLECKER: Good morning, Chairman Koplan,  
6 and Vice Chairman Okun, I think it's still morning,  
7 and members of the Commission. For the record, my  
8 name is Robert Blecker, and I'm here today  
9 representing the Petitioners. I would like to thank  
10 you for the opportunity to testify at this hearing.

11 Imports of standard pipe from China have  
12 risen dramatically over the past two years and reached  
13 record levels in the second half of 2004 and first  
14 half of 2005 with consequent negative affects on the  
15 performance of the domestic industry.

16 In a highly competitive market in which  
17 imports and domestic products are virtually  
18 interchangeable these rising imports have displaced  
19 domestic products both in volume and in market share  
20 with resulting negative affects on shipments, price  
21 cost margins, employment and hours.

22 Because domestic firms cannot afford to sell  
23 products at prices below their cost their margins can  
24 only fall so far and as a result --

25 CHAIRMAN KOPLAN: Excuse me for one second.

1 I think there might be a cover over that projector.  
2 That might make a difference.

3 DR. BLECKER: My assistant here is  
4 overqualified.

5 CHAIRMAN KOPLAN: I recognize that. Why  
6 don't you just continue to proceed while he struggles  
7 with it.

8 DR. BLECKER: Okay. The rising imports have  
9 displaced domestic products both in volume and in  
10 market share with resulting negative affects on  
11 shipments, price cost margins, employment and hours.

12 Because domestic firms cannot afford to sell  
13 products at prices below cost their margins can only  
14 fall so far and as a result they have been forced to  
15 give up substantial volumes of sales and to reduce  
16 employment on standard pipe production lines.

17 The relationship between the rapid increases  
18 in subject imports and the declining performance of  
19 the domestic industry can easily be seen in the  
20 exhibits I have prepared which are based entirely on  
21 data of record from the staff report.

22 As the first exhibit shows Chinese imports  
23 -- that was actually supposed to be red, it looks more  
24 like orange here -- the Chinese imports on the right  
25 bar or orangish red absorb the largest part of the

1 increase in apparent consumption between 2003 and 2004  
2 and then continues to increase in the interim period  
3 of first half 2004 through first half 2005 even though  
4 apparent consumption, which is in the yellow, was  
5 falling at that time.

6 The second exhibit shows that in percentage  
7 terms the increases in subject imports were far out of  
8 proportion to the growth or shrinkage of domestic  
9 demand and domestic shipments were depressed as a  
10 result.

11 Exhibit No. 3 shows that the market share of  
12 subject imports increased notably both in 2003 to 2004  
13 and in interim 2004 to 2005, and that this increase in  
14 the subject import share came almost entirely at the  
15 expense of domestic shipments with only small affects  
16 on the share of nonsubject imports.

17 This demonstrates that if the proposed  
18 relief is enacted the main beneficiaries will be the  
19 domestic producers and not other imports. In  
20 addition, the low prices of the subject imports and  
21 persistent underselling have imposed a cost price  
22 squeeze on domestic producers at a time of rising raw  
23 material costs resulting in depressed profit margins.

24 To demonstrate this correlation more clearly  
25 I have broken out the financial and import data into

1 the two halves of 2004 and the first half of 2005.  
2 Exhibit No. 4 shows that subject imports, which were  
3 already elevated in the first half of 2004 over  
4 previous levels, more than doubled in the second half  
5 of 2004 and then increased still further in the first  
6 half of 2005.

7 The following two exhibits show that the  
8 injury in terms of financial performance and  
9 employment losses was correlated with the time of the  
10 greatest volumes of subject imports. Exhibit No. 5  
11 shows that profit margins deteriorated notably in the  
12 second half of 2004 and remain depressed in the first  
13 half of 2005.

14 The sixth and final exhibit shows that both  
15 the number of employees and total hours worked fell in  
16 the second half of 2004 and continue to decline into  
17 the first half of 2005 when subject imports reached  
18 their highest levels during the POI. In my prehearing  
19 economic submission I present estimates of the likely  
20 gains to domestic producers if the proposed remedy is  
21 adopted.

22 Our proposal is a quota of 90,000 tons which  
23 would essentially roll back Chinese imports to  
24 approximately their 2003 level. My estimates are  
25 based on a model of tariff and quota affects that was

1 constructed by a former Commission staff economist,  
2 Dr. Keith Hall, for use in previous safeguard  
3 investigations.

4 The model gives a range of estimated affects  
5 which show that domestic producers would gain between  
6 13.7 percent and 17.3 percent in revenue primarily as  
7 a result of increased sales volumes and also as a  
8 result of increased prices relative to cost.

9 I would also like to take this opportunity  
10 to comment briefly on the economic analysis contained  
11 in the Willkie Farr Respondents' brief. Respondents  
12 attempt to convince you that subject imports from  
13 China have not really increased significantly even  
14 though they obviously have, and that even if they have  
15 increased they haven't injured domestic producers.

16 I hope you will not be persuaded by these  
17 inconsistent and misleading arguments. For example  
18 the Respondents' brief says at page 6 that the  
19 Commission should focus on the most recent data, but  
20 then they turn around and say that the Commission  
21 should not use the years of 201 relief as a basis for  
22 calculating the increase in Chinese imports and  
23 instead should rely on a trends analysis that goes  
24 back to 1996.

25 They even have one graph that ends in 2003.

1 I will not go back to 1996, but I will point out that  
2 if we simply look at the data of record for the full  
3 period of investigation Chinese imports in the first  
4 six months of 2005 were greater than in all 12 months  
5 of 2000.

6 This implies that Chinese imports are now  
7 coming in at more than double the average monthly rate  
8 of 2000, which by the way was a time when the  
9 Commission found that the entire welded carbon pipe  
10 industry was already threatened with serious injury in  
11 the 201 investigation.

12 Now, turning to the statistical analysis of  
13 the upward trends in Chinese and other imports, this  
14 is given at page 13 and in Exhibit No. 3 of the  
15 Willkie Farr brief, I find that these statistical  
16 estimates are unbelievably weak.

17 In the model of Chinese imports none of the  
18 coefficients are statistically significant, which  
19 means that the margin of error is too large to have  
20 any confidence in the estimates, but even taking the  
21 results at face value what do they really show?

22 First they show that while imports from all  
23 other countries have a linear upward trend, that is  
24 they grow at a constant average rate, imports from  
25 China have a quadratic upward trend which in plain

1 English means they grow at an accelerating rate.  
2 Their rate of increase keeps increasing every quarter.

3 So the Respondents' own statistics show that  
4 Chinese imports have increased more than  
5 proportionately through other imports as well as to  
6 overall demand.

7 Then the Respondents argue that as long as  
8 the Chinese imports continue to grow faster and faster  
9 along this accelerating trend as they have since the  
10 end of the 201 relief the Commission should disregard  
11 the increased import volume and assume that they can't  
12 be causing market disruption or injuring domestic  
13 producers.

14 That is essentially asking you to accept  
15 that an extrapolation of the pre-existing surge in  
16 Chinese imports from before the 201 relief should be  
17 the baseline for your analysis and you could only find  
18 that imports have surged and are injurious if they're  
19 already accelerating rate of increase increases even  
20 faster than before.

21 That argument does not make any economic  
22 sense nor does it have any basis in the statutes. In  
23 fact if you push the trends analysis of the  
24 Respondents to its logical conclusion it implies that  
25 Chinese imports must inevitably grow larger than the

1 entire domestic industry.

2           According to my calculations using their  
3 estimated coefficients the Respondents' model implies  
4 that this is destined to occur in slightly over nine  
5 years from now, but even after every single domestic  
6 producer is driven out of business under the  
7 Respondents' reasoning you could not conclude that  
8 they had been injured by increasing Chinese imports.

9           I am sure that you will not accept such a  
10 preposterous claim. In fact the only logical  
11 conclusion you should take from this trends analysis  
12 is that if Chinese imports are left unchecked they  
13 will displace virtually all domestic production of  
14 standard pipe in about a decade.

15           For reasons of time I will just discuss one  
16 more point. The Respondents claim that if customers  
17 had not been able to buy the increasing volumes of  
18 Chinese imports at cheaper prices in the last few  
19 years the customers would not have bought more  
20 domestic product instead. That is simply not  
21 credible.

22           The data I showed you earlier on market  
23 shares demonstrates, along with the testimony of our  
24 industry witnesses, that customers did indeed switch  
25 from domestic pipes to Chinese imports while overall

1 demand changed relatively little.

2 Respondents claim that as the average price  
3 of standard pipe rose in 2004 and the first half of  
4 2005 the laws of economics allegedly imply that  
5 overall demand should have plunged so much that  
6 domestic producers would not have benefitted even in  
7 the absence of Chinese imports. That is a total  
8 misapplication of the laws of economics and a  
9 misreading of the record.

10 Yes, higher prices should reduce the  
11 quantity demanded to some extent, but in this industry  
12 the responsive demand is not nearly as large as is  
13 implied by the Respondents' theory.

14 The data of record clearly show that when  
15 prices rose substantially in the past two years  
16 overall demand for standard pipe fell relatively  
17 little and the main change that occurred was a shift  
18 from domestic products to subject imports.

19 Thus a more reasonable economic analysis  
20 will show that Chinese imports caused very substantial  
21 injury to domestic producers and that the proposed  
22 relief will bring very substantial benefits to the  
23 domestic industry. Thank you, and I'd be happy to  
24 answer any questions.

25 MR. SCHAGRIN: Thank you, Mr. Chairman.

1 This concludes this panel's testimony. We would be  
2 happy to answer the Commission's questions.

3 CHAIRMAN KOPLAN: Thank you, Mr. Schagrin.  
4 I'm looking at the hour and if my colleagues agree I  
5 would take a break for lunch now and come back and do  
6 the questioning at the conclusion of a 45 minute break  
7 for lunch.

8 Is there any problem from any sides?

9 (No response.)

10 CHAIRMAN KOPLAN: Hearing none, why don't we  
11 take that break now and we'll come back as I say in 45  
12 minutes. I would say to you that the room is not  
13 secure, so any BPI information that you have you must  
14 take with you to protect that. We'll recess at this  
15 time.

16 (Whereupon, at 12:05 p.m., the hearing in  
17 the above-entitled matter was recessed, to reconvene  
18 at 12:50 p.m. this same day, Friday, September 16,  
19 2005.)

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21 //

22 //

23 //

24 //

25 //



1 capacity. Can you elaborate further? For example you  
2 state that most reporting Chinese producers did not  
3 report the number of ships. What can you tell us  
4 about the ships?

5 MR. SCHAGRIN: Commissioner Lane, I think it  
6 will be best to answer that -- that goes to data in  
7 the questionnaire so we characterized it. The  
8 questionnaire itself, the foreign producer  
9 questionnaire, has a question at the bottom after the  
10 information that's supposed to be listed it says  
11 please state a basis for your reported capacity such  
12 as number of ships, et cetera.

13 Just in general and we can give you a table  
14 on this in our posthearing brief, many if not most of  
15 the responding foreign Chinese producers did not  
16 provide answers in that space on the questionnaire.  
17 Obviously all the individual ones are confidential, so  
18 in our posthearing brief we can provide you with some  
19 tables that elucidate to that point.

20 COMMISSIONER LANE: Okay. Do you know of  
21 new Chinese plants that have recently come online or  
22 are about to open?

23 MR. SCHAGRIN: We know of new Chinese  
24 plants, we don't know of ones that are about to open.  
25 We know of both Chinese plants that have started say

1 within the last 18 months. We also know as we stated,  
2 and I'll just characterize what was confidential in  
3 our brief, that there are Chinese producers that we  
4 know are running and that are exporting to the United  
5 States that did not provide questionnaires.

6 We're not sure amongst those how many are  
7 new, recently started and how many are older. We  
8 suspect that many of those were newer producers.

9 COMMISSIONER LANE: To your knowledge are  
10 these multi-product plants? For example can they  
11 produce OCTG and/or other products?

12 MR. SCHAGRIN: To our knowledge the Chinese  
13 industry is similar to the U.S. industry in that most  
14 of the Chinese plants like most of the U.S. plants can  
15 produce more than just standard pipe, not necessarily  
16 OCTG which requires a lot of specialized finishing  
17 equipment, but other products that do not such as  
18 mechanical tubing, or structural tubing, or API line  
19 pipe if they have an API license.

20 COMMISSIONER LANE: Do you believe that the  
21 Chinese producers' capacity data reflects an accurate  
22 production allocation?

23 MR. SCHAGRIN: No, I do not and really there  
24 my best reference for that would be in the staff  
25 report where the data that is supplied in the section

1 on the Chinese industry that gives the overall  
2 capacity data, which is at 4-3, Table 4-2, shows  
3 capacity utilization rates in 70s whereas the data in  
4 4-4 for those producers who reported all of their  
5 capacity shows capacity utilization generally, well,  
6 projected or actual for the first half of 2005 at 113  
7 percent.

8 So I think just comparing those two tables  
9 in the staff report, 4-2 and 4-4, leads me to believe  
10 that the Chinese have not accurately reported their  
11 overall capacity and capacity utilization figures.

12 COMMISSIONER LANE: Thank you. The next  
13 question is for you also. In the Willkie Farr brief  
14 at page 7 Respondents argue that the Section 201  
15 safeguard action affected the level of pipe imports  
16 during 2002 and 2003.

17 Do you agree with that statement, and if so  
18 do you agree with their claim that the proper base for  
19 determining whether subject imports have been  
20 increasing rapidly would be a period prior to the  
21 implementation of the safeguards? If you disagree  
22 please explain why and what base period you would use.

23 MR. SCHAGRIN: First, as to the issue of  
24 whether the safeguards did reduce imports from China,  
25 I agree that the safeguards did reduce imports from

1 China in 2002 certainly when the level started at 15  
2 percent tariffs, and for that matter through a portion  
3 of the early part of 2002 before the President made  
4 his decision in March it was unknown what the 201  
5 relief was going to be and I'm sure that caused  
6 problems, so certainly the low levels in 2002 were  
7 related to the safeguard in 2003.

8 The imports went up to 90,000 tons in spite  
9 of the fact that there were 12 percent tariffs. So  
10 certainly the safeguards had a different affect in  
11 2003 than they did in 2002. I mean, we had  
12 essentially two years covered by safeguard and in one  
13 year we only had 10,000 tons of imports and the other  
14 we had 90,000 tons.

15 Now, do I believe that as the Respondents  
16 have argued you should use a different period for  
17 determining whether there has been a significant  
18 recent increase in imports, I do not agree with that.

19 I think you can see the safeguards ended in  
20 early December 2003 and imports from China increase in  
21 the first half of 2004, but then they doubled between  
22 the first half of 2004 and the second half of 2004 and  
23 they increased again in the first half of 2005.

24 So I think you can start in 2003 and see  
25 that they had 90,000 tons of imports, you can see

1 recently how significant that increase has been in the  
2 period even after the safeguards. Then even if you  
3 would use the Respondents' argument that you should go  
4 back to 2000 and 2001 those years are 150,000 tons of  
5 imports, in the last 12 months we've had 365,000 tons.

6 So really you see how massive the imports  
7 have been recently no matter what you use as a base  
8 period. The legal conclusion would have to be that  
9 there had been a rapid increase in imports. I think  
10 it's best to focus on the most recent period, and in  
11 that most recent period we've had a massive increase  
12 in imports however you measure them against any base  
13 period.

14 COMMISSIONER LANE: Thank you. Chinese  
15 Respondents' prehearing brief states that there are  
16 two grades of standard pipe, Grades A and B, and that  
17 is their brief page 25. Respondents further argue  
18 that the vast majority of Chinese pipe imported into  
19 the United States is the lower quality Grade A pipe.

20 I would like your responses to that  
21 statement by the Respondents and in responding please  
22 address the differences if any between the physical  
23 characteristics of Grade A and Grade B standard pipe,  
24 and uses for these two grades, and price differences  
25 and whether both types of pipe are produced on the

1 same equipment or whether additional equipment is  
2 required for either grade.

3 MR. SCHAGRIN: Let me begin, Commissioner  
4 Lane, and I'll turn it over to a customer of A-53, Mr.  
5 Strittmatter, and then the producers here who make  
6 both A-53 A and B. The products are used  
7 interchangeably in about 95 percent of their  
8 applications.

9 The differences between the A and B in terms  
10 of physical characteristics are their PSI or pressure  
11 ratings. The B has a higher tensile strength so that  
12 when it's carrying fluids like in the sprinkler  
13 systems it doesn't matter.

14 It's really when it goes into a construction  
15 application, which is normally for A-500, then the  
16 strength of the pipe not collapsing between floors is  
17 important and that's maybe five percent of uses.

18 Mr. Strittmatter, I think you're a  
19 distributor of A-53. Could you comment on the  
20 interchangeability of A and B? Then I'll ask Mr.  
21 Dooner.

22 MR. STRITTMATTER: In most of the cases we  
23 are quoting and supplying A-53 Grade B pipe as  
24 according to spec. If the spec reads just A-53 we are  
25 then competing with our Grade B against Grade A, so

1 they do use it interchangeability, but we only supply  
2 Grade B.

3 COMMISSIONER LANE: Thank you. I'll come  
4 back to the rest of my questions in the next round.  
5 Thanks.

6 CHAIRMAN KOPLAN: Thank you, Commissioner.  
7 Commissioner Pearson?

8 COMMISSIONER PEARSON: Thank you, Mr.  
9 Chairman, and welcome to the panel.

10 Mr. Schagrin, there have been several  
11 comments today to the effect that Chinese imports are  
12 unfairly traded. Since this is a Section 421  
13 proceeding aren't we required to assume that the  
14 imports are being traded fairly and to focus instead  
15 on whether the imports have caused market destruction  
16 by increasing rapidly?

17 MR. SCHAGRIN: That is correct. It makes no  
18 difference to the Commission whether the imports are  
19 traded fairly or unfairly, you were to determine the  
20 impact of the imports on domestic industry in terms of  
21 creating market disruption. It's not like Title 7 I  
22 know you all are aware.

23 COMMISSIONER PEARSON: Should we disregard  
24 all statements regarding the fairness of the imports  
25 then?

1           MR. SCHAGRIN: I don't think they have any  
2 legal significance. Whether you choose to disregard  
3 them or not is of course up to you.

4           Legally I don't think they have any  
5 significance, but I think whether it be members of  
6 Congress, members of domestic industry who believe  
7 that currency manipulation is an unfair trade practice  
8 or export subsidies, which unfortunately present U.S.  
9 law are not counteravailable on an unfair trade  
10 practice, I think that those views, it's appropriate  
11 for those who believe that and I personally believe  
12 that to state those views, but I don't think it has  
13 any legal relevance in a 421 proceeding.

14           COMMISSIONER PEARSON: Okay. Well, I did  
15 want to raise the issue just to make clear from the  
16 Respondents' standpoint that we are trying to be  
17 impartial and objective and apply the law as it's  
18 written not how --

19           MR. SCHAGRIN: I understand. As am I. Even  
20 I am trying to have you apply the law impartially. It  
21 does not benefit me in any way for you to apply the  
22 law in any way other than impartially.

23           COMMISSIONER PEARSON: Okay. Good.

24           MR. SCHAGRIN: By the way, Commissioner  
25 Pearson, I would add one thing because it's always in

1 Respondents' brief and I think it does go in an  
2 indirect way to your question. That is they try to  
3 make a lot out of the Commission's 2001 essentially, I  
4 think it was published in March 2002, a negative Title  
5 7 determination.

6           They say well, if the Commission went  
7 negative then in a Title 7 case where there was  
8 findings of unfair trade how could they go affirmative  
9 in this case? What was important about that case and  
10 the actual data on the LTFV imports from China versus  
11 non-LTFV imports are confidential. In fact I have no  
12 idea what they are.

13           It is a matter of public record that the  
14 Department of Commerce investigated three major  
15 Chinese producers who they determined represented more  
16 than two-thirds of Chinese exports to the United  
17 States, which is why those three companies were  
18 chosen, and that two of those three received negative  
19 determinations.

20           So the amount of imports that the Commission  
21 was dealing with at that time were significantly lower  
22 than the publicly reported 150,000 tons at the time.

23           The LTFV imports in that investigation would  
24 have been a fraction of the total imports and I think  
25 that's an important distinction whenever anyone tries

1 to use the previous Title 7 case as a precedent  
2 because there the Commission is required to give only  
3 weight to LTFV imports and cannot attribute any affect  
4 to fairly traded imports.

5 Here of course you have to look at all  
6 imports because we don't determine whether they're  
7 traded fairly or unfairly. Thank you.

8 COMMISSIONER PEARSON: Right. Okay. I have  
9 been trying to get my arms around the record in this  
10 investigation and from the public version of the staff  
11 report I offer three observations and then a question.  
12 Imports are slightly lower in 2004 than 2000 and  
13 that's total imports from all countries, okay?

14 So we have imports basically at the same  
15 level over the full years available in the POI, but  
16 certainly no increase. The industry has been  
17 profitable throughout the POI and the return on  
18 investment has been even stronger than profitability.  
19 The way we measure profitability is income divided by  
20 sales.

21 So in this situation it's not immediately  
22 apparent that the industry is experiencing market  
23 disruption. In fact I was motivated to grab a  
24 dictionary and my American Heritage Dictionary defines  
25 a disrupt as to throw into confusion or disorder; to

1 interrupt or impede the process, movement or procedure  
2 of; and third to break or burst; to rupture.

3 I thought, well, I'm not sure that I see  
4 breaking and bursting here so I thought, well, maybe a  
5 better definition would be adjust. So instead of  
6 having a market disruption maybe we're just seeing  
7 what would amount to a normal market adjustment.

8 So here the definition is to change so as to  
9 fit or match; to cause to correspond; to bring into  
10 proper relationship; to adapt or conform as to new  
11 conditions.

12 So my question is what would you say, Mr.  
13 Schagrin, to the thesis that the industry on the basis  
14 of this record hasn't really experienced disruption  
15 just so much as a normal adjustment that we see over  
16 time in marketplaces for almost all industries?

17 MR. SCHAGRIN: I would call that thesis  
18 based on this record completely incorrect for the  
19 following reasons. First, while you don't have it in  
20 the staff report the first half 2005 ROI plummeted  
21 significantly, so you have had that kind of financial  
22 injury demonstrated in the interim period.

23 Secondly, I think that with all due respect  
24 to the Commission the Congress has already defined  
25 market disruption for you instead of using a

1 dictionary definition.

2 COMMISSIONER PEARSON: Yes. I'm not blessed  
3 with training in the law and I sometimes just look at  
4 the plain reading of the word.

5 MR. SCHAGRIN: Well, that's all right  
6 because I mean, well, I think for Commissioners,  
7 lawyers or not I think what Congress says about the  
8 statutes is of course of principal importance and that  
9 is they basically said that it is material injury.  
10 Then they've gone on in three places and given you the  
11 definition.

12 COMMISSIONER PEARSON: Significant material  
13 injury, right?

14 MR. SCHAGRIN: No. Just material injury.

15 COMMISSIONER PEARSON: Significant cause of  
16 material injury.

17 MR. SCHAGRIN: Yes. Significant cause, but  
18 not a cause of significant material. Yes.  
19 Significant cause of material injury. Then of course  
20 material injury you get a number of factors and those  
21 factors include not only the profitability of the  
22 industry, but production, shipments, employment, et  
23 cetera.

24 Now, first I would say this industry is on  
25 the breaking or bursting point and that is evidenced

1 by the fact that we have had almost a 30 percent  
2 decline in production and shipments, we've had  
3 significant layoffs, we have a number of mills that  
4 are facing closure and that is very significant.

5 I would also say and I've been doing this  
6 for not quite as long as Mr. Barringer, but just  
7 nearly 25 years and apropos to Senator Specter and  
8 some other commentators I'm not sure I had anymore  
9 hair at the start than I do now.

10 I kind of started with a fairly empty head  
11 of hair and hopefully I will not end with just an  
12 empty head, but I've never seen competition in almost  
13 any marketplace like the competition from China. Not  
14 just in this case, I've had some other China cases.

15 You know, the classic competition with U.S.  
16 industry, it's the imports from Japan, other Asian  
17 countries, or from Europe, or from South America at  
18 prices five, 10, 15 percent below domestic prices.  
19 Then domestic producers really could choose do I drop  
20 my price and regain volume, or do I not and give up  
21 volume?

22 Never seen in the pipe and tube area imports  
23 being sold at below domestic producers' cost of raw  
24 materials. That does not give the domestic producers  
25 the normal choice. They can't say, gee, do I drop my

1 price by five percent and try to give up volume if the  
2 Chinese prices are, and they are and your record  
3 confirms this, 30 percent less?

4 I think a lot of these domestic producers --  
5 and it differs by the industry. This is not an  
6 industry in which everyone does the same thing and  
7 executives can make different choices faced with these  
8 different choices. I think, and it was in the  
9 testimony this morning, some producers said I can't  
10 lower my price and regain volume so I'm not going to  
11 lower it.

12 Now, what was the result of that? Their  
13 profit margin may have stayed up, their profits fell  
14 by 60 percent, but their margin on fewer sales may  
15 have stayed up, but they cut back their employees.  
16 They lay off employees, they cut back hours and so  
17 that's why I think it's good that the statute tells  
18 you to give equal weight to all of these different  
19 indicia.

20 COMMISSIONER PEARSON: Just quickly because  
21 my light is changing. Since you see the industry at a  
22 breaking point are you then arguing this primarily as  
23 a threat case rather than as a presidential case?

24 MR. SCHAGRIN: No. When we've had an  
25 increase in imports that has been this massive we've

1 had not just in the first half of this year, but in  
2 the second half of last year over a 12 month period  
3 we've had 25, 30 percent reductions in production and  
4 shipment.

5 We've had the loss of over 10 percent of the  
6 U.S. market just to the Chinese. I think this is an  
7 extremely strong injury case. The threat is very real  
8 because they are at the breaking point. Without an  
9 injury finding here we'll probably see four or five  
10 mills shut down between now and the end of the year or  
11 at least announcements made and the loss of several  
12 hundred more jobs.

13 So it's both a great injury case and a very  
14 strong threat case.

15 COMMISSIONER PEARSON: Thank you.

16 Mr. Chairman, my time has expired.

17 CHAIRMAN KOPLAN: No problem. We'll turn to  
18 Commissioner Aranoff.

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

21 I want to thank the panel for being here  
22 today, and I also want to thank Mr. Schagrin for his  
23 kind words in his opening statement. When the papers  
24 from this case landed on my desk shortly after I  
25 started here last week I said to myself this looks

1 familiar.

2 I looked back and one of the last opinions I  
3 wrote as a Commission staff attorney in late 2000 was  
4 the Pipe and Tube Sunset, so I guess the timing of  
5 this case was apropos. It makes it look like I've  
6 never been gone at all from the Commission.

7 I wanted to ask some of the representatives  
8 of domestic producers here, one of the issues that the  
9 Commission needs to grapple with in this case is how  
10 we factor in the fact that the 201 relief straddles  
11 the period that we're looking at, and so I wanted to  
12 ask some of you gentlemen who are domestic producers  
13 to describe, because the 201 statute of course says  
14 that it's to give the industry time to make a positive  
15 adjustment to import competition, could you describe  
16 some of the actions that you took during the 201  
17 relief period to achieve greater efficiencies or other  
18 production improvements for the industry and to what  
19 extent you see those actions as having contributed to  
20 your level of profitability particularly into 2004,  
21 but in the most recent period as well?

22 MR. DOONER: I turned it off. I'm sorry.  
23 I'm sure you realize that in the 201 relief the pipe  
24 and tube industry only received 50 percent of the  
25 protection that the flat rolled people did. So we

1 actually, even though there was probably in the first  
2 year we did get some relief we found that in the  
3 second year, 2003, that it was really a bad situation  
4 for us.

5 We, having just acquired Saw Hill Tubular as  
6 I mentioned in my testimony and, you know, all the  
7 overhead and fixed costs that go with the CW mill it  
8 really was bad timing for us. I think I also  
9 mentioned in testimony the \$25 million in capital  
10 improvements that we put into Saw Hill, so that was a  
11 difficult situation for us timing-wise with the 201.

12 MR. SCHAGRIN: Commissioner, not to totally  
13 denigrate the 201 relief, but for the pipe and tube  
14 industry having a 15 percent tariff on pipe and tube  
15 when there's 30 percent on flat rolled the pipe and  
16 tube industry just can't find it in its EMCs and term  
17 201 relief. It was a very, very trying period for  
18 industry.

19 To a certain extent even though it could be  
20 described as somewhat dated now there is a similar  
21 situation going on with hot rolled from China which is  
22 subject to 50 to 80 percent anti-dumping duty tariffs  
23 and there's nothing on pipe and tube from China, and  
24 that gives the Chinese every incentive and they take  
25 advantage of this to go downstream.

1           They can't ship hot rolled directly to the  
2 United States because the anti-dumping duties are so  
3 high. We know for a fact, we know from some press  
4 reports from China in fact many of the Chinese hot  
5 rolled producers who are covered by the highest  
6 tariffs the all other rates work closely with pipe  
7 producers to have the product made into pipe and  
8 shipped to the United States.

9           Anyone else on the panel want to comment  
10 about actions taken during the 201?

11           I know, Mr. Terao, it was already in your  
12 testimony that you put in a \$10 million new  
13 galvanizing line.

14           Anyone else want to? Scott?

15           MR. BARNES: Scott Barnes, IPSCO Tubulars.  
16 During the period of relief we made several  
17 improvements as in our questionnaire response with  
18 respect to upgrading our finishing line in Camanche,  
19 Iowa, as well as the addition of the coil entry end at  
20 Camanche, Iowa, which permitted us to make heavier  
21 thickness walled pipe and allowed to introduce a new  
22 product into our portfolio.

23           We also had some continuous improvements at  
24 our Blytheville mill in the form of ultrasonic  
25 inspection. These were help in improving the overall

1 quality and the detection of errors, things of that  
2 nature.

3 COMMISSIONER ARANOFF: Okay. I want to turn  
4 to some questions on cost of production and ask if any  
5 of the domestic producers could explain to me, and  
6 some of you did in your testimony this morning, but  
7 when you receive an announcement for an increase in  
8 the price of hot rolled how do you normally react to  
9 that?

10 Would you immediately a similar price  
11 increase? If so, would it be in the same amount,  
12 more, less? What's typical, and has anything atypical  
13 been going on in the most recent period?

14 MR. BOGGS: Hey, there. I'm Will Boggs,  
15 Allied Tube. Commenting on what happens when steel  
16 prices go up, quite frankly we're contemplating that  
17 situation right now because in the past I guess  
18 Katrina there's a little bit of a spike in the prices.  
19 Hot rolled prices are going up.

20 If we look at the fence business we  
21 recognize that there's an abundant amount of cheap  
22 Chinese pipe in the distributors yards now and getting  
23 a price increase there is going to be pretty tough.  
24 So that's how we kind of wrestle with this. It's  
25 really market conditions, you know?

1           If we can get the price increase of course  
2 we want to try to do that. We want to try to pass  
3 that along or a portion of it, but right now we see  
4 that a little tough in the fence business in  
5 particular due to the amount of cheap Chinese pipe  
6 that's in the chain right now.

7           MR. SCHAGRIN: Anyone else want to comment?  
8 I know just in general, Commissioner, I mean just  
9 taking the information that was in Exhibit No. 2 and  
10 we also went through this recently in another case on  
11 another pipe and tube product, Lite Waller Rectangular  
12 Tubing, last year at the Commission, I think you would  
13 find and it's on the record that in late 2003 through  
14 the middle of 2004 the pipe industry tended to  
15 announce price increases as soon as they received cost  
16 increase announcements.

17           I think the current situation which  
18 demonstrates the impact of the massive surge in  
19 imports from China is that the most recent cost  
20 increase announcements from steel mills have not  
21 produced price increase announcements from probably  
22 most of this segment of the pipe industry.

23           I would contrast that and we have some  
24 producers here who also make oil country tubular goods  
25 thinking oil country tubular goods, almost the whole

1 industry made announcements of increasing prices as  
2 soon as they got cost increases. So there's  
3 definitely not a standard procedure.

4 I think because they are fabricators the  
5 pipe producers would always like to pass along cost  
6 increases on such a major raw material, but it depends  
7 on market conditions. Presently the market conditions  
8 are not allowing them to pass through the most recent  
9 cost increases whereas cost increases that occurred in  
10 late 2003, early 2004 they were able to pass those  
11 along at that time.

12 COMMISSIONER ARANOFF: Let me ask a somewhat  
13 related question to the purchasers who are here today.  
14 We really appreciate your being here. We don't always  
15 hear from purchasers live at the hearing. Could you  
16 explain to me how your inventory of standard pipe has  
17 changed over the period of investigation that we're  
18 looking at?

19 For example I'm just interested in finding  
20 out how many months of inventory is it typical for you  
21 to hold, and was that different for example in 2004  
22 when the prices were spiking?

23 MR. MILLER: Tim Miller with Master Halco.  
24 We typically carry two to three months worth of  
25 inventory. We were bringing in additional inventory

1 in 2004 to meet the demand as demand was increasing,  
2 but in 2005 we ended up with significant more  
3 inventory and due to the price softening we have been  
4 destocking our inventory significantly this year.

5 Even though we're probably still at about  
6 three months worth of inventory our inventory levels  
7 on that product line is significantly lower by about  
8 probably 25 to 30 percent, and it's been driving down  
9 because our inventory cost was high and we needed to  
10 get rid of it because of lower cost product coming in  
11 and forcing the market price down up until probably  
12 June, July, August.

13 COMMISSIONER ARANOFF: Thank you. I see my  
14 time is up. If there's any other purchasers who want  
15 to comment I can come back to you in the next round.

16 CHAIRMAN KOPLAN: Thank you, Commissioner.

17 Mr. Schagrin, let me come back and pick up  
18 on the question that Commissioner Pearson was asking  
19 you about a prior decision.

20 On page 15 of the Willkie Farr prehearing  
21 brief they state and I quote "In fact, the industry's  
22 average operating margin even exceeds the industry's  
23 operating margin reported in the Commission's 2002  
24 anti-dumping investigation of circular welded nonalloy  
25 pipe from China."

1                    "In issuing a negative injury determination  
2                    in that investigation the Commission found compelling  
3                    the domestic industry's reported five percent  
4                    operating margin in 2001 which was a decline in  
5                    performance of 7.3 percent in 2000 and eight and a  
6                    half percent in 1999."

7                    "In the instant case over the most recent 12  
8                    months the domestic industry is actually improving its  
9                    operating margin raising it to the level that is  
10                   higher than it was in 2001, the last full year of a  
11                   period for which the Commission found the domestic  
12                   industry was not suffering material injury from  
13                   subject imports from China."

14                   My question is this. Given our prior  
15                   negative determination as relied upon by Respondents  
16                   how should we factor that in when analyzing the  
17                   financial data gathered in this investigation?

18                   MR. SCHAGRIN: My first point, Chairman  
19                   Koplan, is that I believe that the 2001 decision is  
20                   based on causality. I think that the majority of the  
21                   members of this Commission generally determine is  
22                   there causality? Is there injury by reason of the  
23                   imports? If you find there is not then you go on to  
24                   write your decision as to why you have found there is  
25                   not.

1           So I would say that the relatively low  
2 market share of the LTFV imports in that decision was  
3 the most critical element in the Commission's negative  
4 causality determination. Now, having stated that the  
5 information on profitability, first of all the trends  
6 are very different.

7           In that determination you had profit margins  
8 falling from eight and a half to five percent. In the  
9 present timeframe you have profit margins falling from  
10 much higher levels, up to 16, 17 percent, down to the  
11 five, six percent range and it's been occurring over  
12 the past 12 months.

13           Certainly now we have profits heading down  
14 at a much more accelerated rate. I recognize that the  
15 present 6.7 percent operating margin in the first half  
16 of 2005 may be higher than the five percent in 2001,  
17 but it represents a much more significant deceleration  
18 from the previous profit margin than did the five  
19 percent from the previous eight percent.

20           As I stated to Commissioner Pearson, I see  
21 profits as just one part of the injury picture. I do  
22 think that this industry has reacted differently to  
23 these imports than it has to prior. It has chosen not  
24 to drop prices as much. There has been price  
25 depression, that's why margins have fallen.

1                   In the face of not being able to rebuild  
2 volume, by dropping price a lot of producers have just  
3 really given up their volumes. The fall in production  
4 and shipment in this case as compared to the previous  
5 case is a magnitude of two and a half times as much.  
6 I think we were talking about 10 or 12 percents falls  
7 and that was with demand falling because we were going  
8 into recession in 2001.

9                   Now, we have really demand changed a little  
10 bit by these inventory build-ups and declines, but we  
11 have demand on a fairly strong basis and we're looking  
12 at 30 percent declines in production and shipment.  
13 It's just massive. It's overwhelming.

14                   Going forward as you've heard totally  
15 contrary to the predictions that I think are baseless  
16 in the Willkie Farr brief these folks are telling you  
17 that the third quarter is much worse than the first  
18 two. So on a current basis the profit margins  
19 continue to decline and the injury continues to be  
20 apparent.

21                   We can give you some information. I mean,  
22 Will's company had to make, they're a public company,  
23 they had to make an announcement. That's how bad  
24 third quarter profits were going to be, that in  
25 advance they had to make an announcement to the public

1 that we're going to miss profit projections. For a  
2 big corporation.

3 Because one segment's profits were going to  
4 be down 80 percent it caused a profit announcement for  
5 a \$10 billion a quarter company because his segment's  
6 going to have an 80 percent decline in profits for  
7 that forthcoming quarter. That's massive.

8 CHAIRMAN KOPLAN: Thank you. I appreciate  
9 your response. Let me come back to a question that  
10 Commissioner Lane asked regarding the Grade A and  
11 Grade B. If I could follow-up with Mr. Miller and Mr.  
12 Thompson, and you could get in on this as well again,  
13 Mr. Strittmatter, I'm just curious.

14 Willkie Farr's prehearing brief at pages 26  
15 and 27 states and I quote "The vast majority of  
16 Chinese pipe imported into the United States is the  
17 lower quality Grade A product. An internal survey of  
18 Respondent exporters coordinated by CCCMC indicates  
19 that only a single exporter responding to the survey  
20 shipped only Grade B product to the United States."

21 "The other exporters shipped between 60  
22 percent and 100 percent Grade A product to the United  
23 States."

24 Do any of you purchase both Grade A and  
25 Grade B Chinese pipe? Are there price differences

1       attributable to quality differences between subject  
2       imports of Grade A and Grade B?

3               MR. THOMPSON:   John Thompson with Merchant  
4       Metals.   In the 30 years I've been doing this I've  
5       bought Grade B pipe I think one time, and I attributed  
6       that to a misprint in the specifications.   In our  
7       industry we're doing chainlink fence.

8               It's fence, so we don't need a Grade B with  
9       a higher tensile strength, we really don't, so that  
10      whenever we put our product out for bid I spell out  
11      the specification as being ASTM A-53, Schedule 40,  
12      Grade A or Type F, but for foreign it's going to be  
13      Grade A.   We don't solicit the pricing on Grade B and  
14      we don't buy Grade B.

15              CHAIRMAN KOPLAN:   Yes?

16              MR. MILLER:   Tim Miller with Master Halco.  
17      Similar to John we are direct competitors, but we do  
18      not specify Grade A or Grade B we only specify Grade  
19      A-53 and it's up to the suppliers to supply us  
20      whatever the most competitive product is because it's  
21      just not necessary in our industry to have a tensile  
22      product.

23              MR. MAGNO:   Chairman Koplan, Mark Magno from  
24      Wheatland Tube Company.   Wheatland Tube produces a  
25      significant amount of our standard pipe production is

1 Grade A material. It's done primarily at our Sharon,  
2 Pennsylvania, plant. Our Wheatland, Pennsylvania,  
3 plants, which are both continuous weld mills, those  
4 mills because of the equipment and the specification  
5 produce Grade A product.

6 So there is a significant domestic  
7 production of Grade A product as Sharon Tube also  
8 produces a similar Grade A product. Our Little Rock  
9 plant is an electric weld mill and it does also  
10 produce a Grade A product. We do have an electric  
11 weld mill that produces a small amount of Grade B, but  
12 the far majority of Wheatland sander pipe is Grade A.

13 CHAIRMAN KOPLAN: Thank you. I appreciate  
14 that.

15 Mr. Lux and Mr. Vivian of Maverick, Willkie  
16 Farr states on page 19 of their prehearing brief that  
17 "There has been no recent idling or closure of  
18 productive facilities. Recent operation suspensions  
19 or closures have been the result of domestic mills  
20 seeking efficiency gains and capacity rationalization  
21 rather than a basic elimination of competitive  
22 capacity."

23 "Indeed, some of these closures occurred  
24 during the period Section 201 relief when the domestic  
25 industry was presumably seeking to restructure

1 operations in response to the relief."

2 They then use as an example Maverick Tubes'  
3 acquisition of LTV Corp, tubular assets at the end of  
4 2002 including its Youngstown, Ohio, facility during a  
5 time of consolidation in the broader steel industry  
6 facilitated by the 201 relief.

7 Were these closures made in an attempt to  
8 restructure your operations as a result of 201 relief?

9 MR. VIVIAN: No.

10 CHAIRMAN KOPLAN: If you could identify  
11 yourself for the record?

12 MR. VIVIAN: I'm Paul Vivian from Maverick  
13 Tube.

14 CHAIRMAN KOPLAN: Thank you.

15 MR. VIVIAN: In the closure of the  
16 Youngstown facility we were simply looking at the  
17 total market for the standard and line pipe product  
18 and rationalizing that facility based on the total  
19 domestic market.

20 Once again, at Maverick as we saw 201 using  
21 the word 201 and relief in the same sentence didn't  
22 make any sense to us in our office because we saw  
23 very, very little relief and it had nothing to do with  
24 our closure of the Youngstown facility.

25 Then further as we look at what's happened

1 at Counce we are now running at half of the  
2 operational rate that we were when we acquired those  
3 assets and operated them for two and a half years  
4 prior to our layoff situation early this year.

5 CHAIRMAN KOPLAN: Thank you. I appreciate  
6 that, and I see my red light is on.

7 I'll turn to Vice Chairman Okun.

8 VICE CHAIRMAN OKUN: Thank you, Mr.  
9 Chairman.

10 Let me join my colleagues in welcoming all  
11 the witnesses here today. We very much appreciate  
12 your being here and your willingness to answer our  
13 questions and not just for the producers, but  
14 purchasers and suppliers as well. We do think it  
15 helps complete the record in this case, so I thank  
16 that.

17 Also, we'd like to welcome the workers that  
18 are here and hope that by observing this hearing you  
19 have a better understanding of the analysis we go  
20 through in applying the law in this case, so we  
21 welcome you here as well.

22 I want to talk about prices and profits  
23 particularly in the 2004, 2005 period, but I think I  
24 want to go back to a question that was raised by  
25 Commissioner Aranoff and just make sure that I have a

1 complete understanding.

2 Mr. Dooner, you spoke about the price  
3 increase announcement most recently made and your view  
4 of whether that will be adopted or not. I heard from  
5 Mr. Boggs on you have not announced, if I understood  
6 your answer, a price increase in light of the recent  
7 hot rolled increases. If you can use your mic?

8 MR. BOGGS: Excuse me. Yes. We have a  
9 recent price increase announcement. It was late  
10 August for sprinkler pipe. That would be the black  
11 plane-in product. We have not passed one along in the  
12 fence business, the galvanized plane-in, and the  
13 reason why is there is an abundant amount of the cheap  
14 Chinese product in distributors yards currently.

15 The black plane-in product that's used in  
16 sprinkler, that really came in more like January,  
17 February and March. The sprinkler inventories aren't  
18 as high with the Chinese pipe right now.

19 In the fence business, though, we were hit  
20 real heavy in April, May and June big time with 12,000  
21 tons of galvanized plane-in product that came in June  
22 and that's the equivalent of what our fence volume and  
23 the like product that we sell in the fence business.  
24 So that's why -- we'd like to, but we have not  
25 announced a price increase and we're contemplating

1 what the impact is going to be on our new steel prices  
2 going forward.

3 VICE CHAIRMAN OKUN: If I could hear from  
4 the other producers with regard to -- actually, I only  
5 need to hear from those who have announced a price  
6 increase that would be on the record of July, August.  
7 It's an August price increase for September. If  
8 there's any other producers here?

9 Mr. Perrine?

10 MR. PERRINE: I'm Bill Perrine from Sharon  
11 Tube. We have not made any increases in price at this  
12 point in time. We only produce one inch and down pipe  
13 sizes and only by the furnace weld method, which is  
14 strictly Grade A, but we have not done anything in  
15 that area. No.

16 VICE CHAIRMAN OKUN: Other producers?

17 I can't see your name back there, so if  
18 someone has raised you the microphone?

19 MR. BARNES: Scott Barnes with IPSCO  
20 Tubulars. We did announce a price increase on  
21 standard pipe, ERW Grade B material, in August  
22 effective for today, September 15. So the jury is  
23 still out as to whether that will be collected or not,  
24 but we didn't make an announcement, again, in attempt  
25 to try to recover the rising cost of raw materials.

1           MR. LUX: Neal Lux of Maverick Tube. We  
2           have announced a price increase for October shipments,  
3           not for September shipments however.

4           VICE CHAIRMAN OKUN: Okay. Thank you for  
5           that clarification.

6           MR. FINN: Don Finn. We announced a price  
7           increase on a product that's not here on standard  
8           pipe, electrical conduit, and that's effective Monday.

9           VICE CHAIRMAN OKUN: Okay, but not on the  
10          subject product?

11          MR. FINN: We have not raised the price on  
12          fence tubing and we don't think we can because our  
13          customers are loaded with Chinese inventory. If we  
14          raise our price 10 percent our volume will go down  
15          that much more in the next quarter.

16          VICE CHAIRMAN OKUN: Anyone I haven't heard  
17          from?

18          MR. MAGNO: Vice Chairman Okun, could I make  
19          a slight clarification? Mark Magno from Wheatland.  
20          The price increase that Mr. Dooner spoke about is on a  
21          very small segment of our pipe production. It's A-53  
22          Grade B. It doesn't cover the greater majority of our  
23          A-53-A standard pipe.

24          VICE CHAIRMAN OKUN: Right. I heard him  
25          make that clarification, but for purposes of

1 posthearing, Mr. Schagrin, if you can just make sure  
2 for the producers who are not here that we have  
3 information on if they have announced price increases,  
4 and obviously you will tell us whether it covers the  
5 whole product or a subspecies, not a subspecies. You  
6 know, I'm on shrimp, too.

7 MR. VIVIAN: Madam Vice Chairman Okun?

8 VICE CHAIRMAN OKUN: Yes?

9 MR. VIVIAN: Paul Vivian from Maverick  
10 again. One of the points there was a long  
11 dissertation earlier about the increases in 2004 and  
12 one of the things I think we have a tendency to  
13 overlook is that when we receive an increase in hot  
14 rolled prices for \$60, which is what we just received  
15 recently, and we've raised our price \$60 as well what  
16 we give up is our scrap and our yield loss as well.

17 I don't know what that is for our industry  
18 as a whole, but I would estimate it would be between  
19 eight and 15 percent. So every one of these increases  
20 when we pass them along for just the like amount of  
21 the increase we suffer an average 10 percent loss  
22 simply because of yield issues.

23 VICE CHAIRMAN OKUN: Well, Mr. Vivian, I'm  
24 glad you raise that because it does I think tie-in to  
25 another issue that I want to explore with the

1 producers. I know I took from Mr. Boggs' earlier  
2 comments that it does depend on the market out there  
3 how quickly your price increases follow a hot rolled  
4 increase.

5 We have the hot rolled producers back there  
6 and I know we've had a chance to hear from them on  
7 other cases, and so I assume that what you're saying  
8 is it has been different in this time period when you  
9 saw, or I guess maybe you could talk to that, in the  
10 2003, 2004 if we looked at the sheet in the staff  
11 report which includes where hot rolled prices went  
12 during the period and the lows of the two hundreds up  
13 to the peaks of over 700 your reaction time would be  
14 different than it would be when things are slower.

15 Am I understanding what you were saying?

16 MR. VIVIAN: Absolutely. Absolutely.

17 VICE CHAIRMAN OKUN: Okay. Well, then maybe  
18 my next question, and Mr. Schagrin, I think this goes  
19 to what you raised I believe in your opening and your  
20 beginning testimony of whether the lag issue that  
21 Respondents have raised in a number of their charts is  
22 relevant in determining how your operations will  
23 perform in the future and how to evaluate them in the  
24 past.

25 Certainly the concept of a lag is not

1 unfamiliar to the Commission, it's not unfamiliar in a  
2 steel product, so I think first let me just make sure  
3 I understand, though, for this particular industry. I  
4 know our questionnaire did have questions about how  
5 long you keep product and inventory from when it's  
6 purchased to when it's a finished product.

7 Just so that I have a good understanding of  
8 that if the producers could just help me out and just  
9 start at the front here and tell me how long you keep  
10 something in inventory? Again, it changes based on  
11 the market. I understand that, too, but help me  
12 understand because part of the Respondents' argument  
13 is based on if you factor in a particular lag you do  
14 see a difference in a number of things. So help me  
15 out.

16 Mr. Perrine?

17 MR. PERRINE: Again, I'm Bill Perrine. It  
18 does certainly vary with the economic times, but  
19 typically and normal pattern we would expect to  
20 maintain about a month and a half of raw material  
21 inventory and we typically run about a month and a  
22 half of finished product in our inventories. That's  
23 the typical lag.

24 When steel is difficult to get that  
25 inventory might shrink a little bit, but that's the

1 typical.

2 MR. BOGGS: Yes. Will Boggs, Allied Tube.  
3 I'd say typically we're like 60 to 90 days with raw  
4 materials.

5 MR. DOONER: Pete Dooner from Wheatland. We  
6 typically would have anywhere from 90 to 120 days of  
7 finished. Currently we have more, we have about three  
8 months and that's a function of our year end coming at  
9 the end of this month and accounting issues, but  
10 typically it would be about two months I would say on  
11 average.

12 VICE CHAIRMAN OKUN: For raw material as  
13 well or are you talking about finished?

14 MR. DOONER: No. that's for raw materials.

15 VICE CHAIRMAN OKUN: Okay. All right. I  
16 thought I misheard you.

17 Mr. Terao, or --

18 MR. FINN: Western Tube typically carries  
19 between 90 and 120 days. That's a combination of both  
20 raw and finished goods.

21 MR. BARNES: Scott Barnes, IPSCO. I would  
22 say raw material is generally around, well, being next  
23 to Nucor it's very short, but one month on average,  
24 one and a half tops.

25 MR. LUX: Neal Lux, Maverick. Again, being

1 close to Nucor as well we would have that one to one  
2 and a half month lead time and then in finished goods  
3 we've dramatically reduced how long we'll hold that in  
4 this year compared to previous years.

5 VICE CHAIRMAN OKUN: I heard from everybody?

6 MR. SCHAGRIN: Yes. I believe you have.

7 VICE CHAIRMAN OKUN: Just for complete with  
8 Mr. Schagrin to make sure that to the extent that not  
9 all the questionnaires have answered that particular  
10 question to make sure that you could get the best  
11 possible information.

12 MR. SCHAGRIN: I'll remind you, Vice  
13 Chairman Okun, we have six out of seven Petitioners  
14 here so I only have one other company to check with.  
15 That's the great thing about this great coverage. If  
16 there's anybody else we can help with. I know a few  
17 people in this industry, so any help I can dig up I'll  
18 try.

19 VICE CHAIRMAN OKUN: Well, my time has  
20 expired. I will come back to my next serious  
21 question.

22 Thank you.

23 CHAIRMAN KOPLAN: Thank you.

24 Commissioner Hillman?

25 COMMISSIONER HILLMAN: Thank you. I, too,

1 would join my colleagues in welcoming many of you back  
2 to the ITC, and for those of you that it's your first  
3 time here we welcome you. I also want to express my  
4 appreciation to the steel workers that have taken the  
5 time to travel here to be with us as well.

6 I want to keep a little bit more exploring  
7 this issue because I do think it is critical for us to  
8 understand, particularly some of the issues that are  
9 raised with respect to pricing and how they're  
10 affected by your cost.

11 So let me help understand in addition to  
12 this issue of how long do you inventory your raw  
13 materials, I'd like to make sure I understand the  
14 terms under which you purchase them, whether you are  
15 purchasing any of your hot rolled on a longer-term  
16 basis where you're locking in some lower or albeit  
17 higher prices or whether everything is being purchased  
18 on a spot basis.

19 What portion of what you all buy in terms of  
20 your raw materials is purchased on a spot basis?

21 MR. DOONER: Pete Dooner, again, from  
22 Wheatland. We buy 95 to 100 percent on the spot  
23 market.

24 COMMISSIONER HILLMAN: Others? Mr. Boggs?

25 MR. PERRINE: Bill Perrine, Sharon Tube.

1 One hundred percent spot.

2 MR. BOGGS: Yeah. Will Boggs, Allied Tube.  
3 We're largely spot buyers, too.

4 MR. TERAQ: Goro Terao with Western Tube.  
5 We buy the 100 percent spot basis.

6 MR. BARNES: Scott Barnes, IPSCO Tubulars.  
7 We buy a combination of spot and contract.

8 COMMISSIONER HILLMAN: Do you have a just  
9 general sense of how much spot, how much --

10 MR. BARNES: We'll refer to that in our  
11 posthearing brief.

12 COMMISSIONER HILLMAN: Okay. Fair enough.

13 MR. LUX: Neal Lux, Maverick Tube. We buy  
14 almost all on spot market.

15 COMMISSIONER HILLMAN: Appreciate those  
16 answers.

17 Then if I am trying to understand the issue  
18 of what you normally would expect to get as a margin  
19 between the price that you're paying for your hot  
20 rolled versus what you're selling your finished  
21 tubular goods for is there typically either a dollar  
22 amount or a percentage amount that you would consider  
23 to be sort of normal amount of margin spread between  
24 your hot rolled prices versus your finished sales  
25 prices?

1 Mr. Dooner?

2 MR. DOONER: Yes. That would really depend  
3 on the product line and really how much value added  
4 there is. On a piece of black pipe-in it would be  
5 very low.

6 COMMISSIONER HILLMAN: Low would be? Give  
7 me a percentage or dollar.

8 MR. DOONER: Typically for us it would \$200  
9 or something like that, but as you add more value to  
10 the piece of pipe by for instance galvanizing or  
11 threading then you would hope to get more margin on  
12 the product because there's more value added  
13 obviously.

14 COMMISSIONER HILLMAN: Anyone else?

15 MR. BOGGS: Yeah. Will Boggs, Allied Tube.  
16 I could give specific information over a timeframe in  
17 a posthearing --

18 COMMISSIONER HILLMAN: I think that would be  
19 helpful.

20 MR. BOGGS: Because like it's really market  
21 condition driven also a bit even though if you were to  
22 ask me that on the fence tube and on the sprinkler  
23 business I have a spread number in mind that  
24 historically is a barometer that we use thinking about  
25 the averages over the years, okay?

1           I know that number, but I wouldn't want to  
2 say it here today.

3           COMMISSIONER HILLMAN: Let me then ask Mr.  
4 Schagrín, because I'll be honest. One of the things  
5 I'm trying to think through, obviously Mr. Barringer  
6 has made the point that we hear you that you have lost  
7 the volume of your shipments and that your production  
8 and shipments are down, but obviously he is suggesting  
9 that he believes that's because you're overpricing  
10 product.

11           Part of that goes to this issue of are you  
12 overpricing your product. I have to say if I just  
13 look at the numbers that are on the record in terms of  
14 the raw price of hot rolled or hot dipped sheet versus  
15 the prices of pipe and I look at it over this period  
16 the spreads have gotten very wide and much wider in  
17 the recent year.

18           I just ran the numbers. Again, I'm not  
19 saying we have perfect data on the record, but it  
20 would clearly show me that at the beginning of this  
21 period we would have seen margins for the difference  
22 between starting with the hot dipped product and  
23 ending up with galvanized pipe of less than \$100, and  
24 we're now looking at spreads in the \$300 range.

25           If I'm looking at plain hot rolled sheet

1 you're looking at differences in terms of the price of  
2 hot rolled versus the price of a galvanized pipe of  
3 over \$450 and increasing throughout this period which  
4 would suggest that you all are making better margins  
5 today than you have.

6           Again, I'm not saying that's a perfect way  
7 to look at it, but I would like you, Mr. Schagrín, to  
8 think about how should we look at this issue because  
9 it certainly suggests that you are getting a much  
10 bigger spread on your sales price over your price of  
11 hot rolled in the most recent period.

12           Again, I haven't factored in this very  
13 recent hot rolled increase, but certainly over all of  
14 2005 for which we have data and most of 2004 it looks  
15 much, much bigger than it did in 2000, 2001, 2002,  
16 2003, which suggests that maybe you could have lowered  
17 your prices some and not eroded this margin in terms  
18 of differences in material costs.

19           MR. SCHAGRIN: Commissioner, we'll respond  
20 more fully in the posthearing, but I would point out  
21 just based on evidence of the record, I'm looking at  
22 it now, that I think completely disproves the point  
23 made by Respondents and that is that in the first half  
24 of 2005 cost of goods sold, the biggest part of which  
25 is raw materials, as a share of selling price is up to

1 87.5 percent the worst of the entire period of  
2 investigation except for 2003 when we had duties on  
3 flat rolled imports that were twice as high on duties  
4 on pipe.

5 I would submit to you that is evidence,  
6 clear evidence, that it is not pipe producers  
7 increasing their spreads between price and cost that  
8 has contributed in any way to any apparent decline in  
9 demand. The record shows that their cost of goods  
10 sold ratio is at virtually its worst point over the  
11 POI in the first half of 2005.

12 I would also say that in a lot of the  
13 Respondents' comparisons they do compare -- first, not  
14 only do they compare galvanized prices to often hot  
15 rolled sheet which doesn't include the zinc, but most  
16 of their pricing comparisons are based on data from  
17 Preston Pipe report not from the staff report, and the  
18 Preston Pipe report states right at the beginning of  
19 that report that is based on data collected on both  
20 imports and domestic shipments.

21 In addition I polled this group yesterday  
22 and only one out of these six companies, and this is  
23 almost three-quarters of the industry, gives any  
24 information on pricing to Preston, so I don't know  
25 where the data is coming from. I think your staff

1 report data does not show spreads increasing  
2 significantly over the whole time period.

3 They did in 2004, they have declined in  
4 2005.

5 COMMISSIONER HILLMAN: I appreciate that.  
6 If you help on this issue of the best way to look at  
7 this data?

8 MR. SCHAGRIN: We will.

9 COMMISSIONER HILLMAN: It also to me goes  
10 to, and perhaps I should ask purchasers, this issue as  
11 I hear your testimony what you're saying is in the  
12 past when you've had import competition you've made  
13 some price reductions in order to try to keep some  
14 share, you probably won some of those deals and lost  
15 some of the other ones, but as I hear it today your  
16 view is I can't go there.

17 The Chinese price is below one in which  
18 you're prepared to go, so you're simply losing share  
19 rather than trying to match prices is how I'm  
20 generally hearing your testimony.

21 I guess from the purchasers perspective I  
22 would like a sense of does the domestic industry have  
23 to actually meet the Chinese price or is there some  
24 degree of price premium you are willing to pay for  
25 closer, faster, anything else, or is it really the

1 case that in order for the domestic industry to keep  
2 sales to you, the purchasers, they have to actually  
3 meet the Chinese prices dollar for dollar?

4 MR. MILLER: This is Tim Miller with Master  
5 Halco. No, they do not have to meet the Chinese  
6 price. In the past when you were referring to imports  
7 of several years ago the price disparity was in the  
8 range of 10, 12, 14 percent.

9 While we always have used a small amount of  
10 import products for very competitive jobs, lately when  
11 there's a 20 to 30 percent price disparity and our  
12 suppliers are saying we can't even get close then we  
13 still select a larger share of Chinese products  
14 because we have to to remain competitive in our  
15 industry.

16 When you ask what the difference is I would  
17 say I look at probably anywhere from eight to 12  
18 percent. As long as they're within eight to 12  
19 percent higher we'll buy domestically just because of  
20 the supply chain issues and the amount of inventory  
21 that we have to carry, that there's a cost to that  
22 inventory.

23 COMMISSIONER HILLMAN: Mr. Thompson?

24 MR. THOMPSON: John Thompson, Merchant  
25 Metals. Yeah. Actually, I agree with Tim Miller on

1 this issue. We'd much rather buy the domestic product  
2 because we can get faster deliveries and we can turn  
3 our inventory. Idle inventory costs us money.

4 Typically if we see something in the  
5 neighborhood of an eight to 10 percent difference  
6 that's when we start scratching our heads and saying  
7 okay, how much do we want to go domestic versus how  
8 much do we want to go foreign. Plus we're always  
9 rolling the dice a little bit on what's the market  
10 going to do between the time we place the order for  
11 the pipe and 120 days later when it comes in?

12 COMMISSIONER HILLMAN: Last, I hope a very  
13 quick question. Mr. Nolan, in his testimony commented  
14 on his ability to start rolling sheet product thinner  
15 so that you can use hot rolled as opposed to going to  
16 cold rolled. Is all of the subject product today  
17 currently made out of hot rolled or is there still  
18 some version of standard pipe that requires a cold  
19 rolled product?

20 MR. BOGGS: Yeah. Will Boggs, Allied Tube.  
21 I'd say in the sprinkler business virtually all of  
22 it's hot rolled, in the fence business probably 60  
23 percent of it's hot rolled and in the light gauge  
24 tubing it could be cold rolled.

25 COMMISSIONER HILLMAN: Thank you.

1                   CHAIRMAN KOPLAN: Thank you, Commissioner  
2 Hillman.

3                   Commissioner Lane?

4                   COMMISSIONER LANE: Thank you, Chairman  
5 Koplan.

6                   Mr. Schagrin, there is some controversy  
7 regarding the extent and impact on profits of the lag  
8 between raw material cost changes and selling price  
9 changes, specifically in the Willkie Farr brief there  
10 are Exhibit Nos. 8 and 9 which propose a methodology  
11 for estimating the lag affects.

12                  I would like you to comment today on this  
13 methodology in general. Furthermore, if you have  
14 alternatives or suggest errors in the methodology you  
15 can provide further detailed analysis in your  
16 posthearing brief.

17                  MR. SCHAGRIN: Thank you, Commissioner Lane.  
18 First, those two exhibits are more full of errors than  
19 we have time to discuss today. They are almost, in  
20 terms of either lawyers or economists, putting their  
21 name to that type of analysis with so many errors it's  
22 a little bit frightful, so we will fully analyze that  
23 in our posthearing.

24                  I would point out just a few of them. You  
25 heard about average lags of approximately 60 days on

1 raw materials and between 30 and 60 days on finished  
2 products, but --

3 COMMISSIONER LANE: Could you speak into  
4 your microphone?

5 MR. SCHAGRIN: I'm sorry. The lags that  
6 you've heard about today, first, the average lags that  
7 you hear about are 60 days on raw materials, 30 to 60  
8 days on finished product, but any assumption about the  
9 accounting basis of treating those lags the Willkie  
10 Farr analysis assumes that everyone is using a FIFO  
11 system, first in, first out, so that you'd have to  
12 account for the lags.

13 If the folks in the industry aren't using  
14 FIFO you wouldn't account for those lags at all. If  
15 someone is using average cost accounting you don't  
16 have to account for the lags, it's already there, it's  
17 average cost. There's no lag in the material, it's as  
18 it gets used it gets costed.

19 There's at least one producer here that is  
20 using LIFO. He made a major opposite LIFO increase in  
21 profit adjustments. For someone who is using LIFO and  
22 their data in the total mix -- now, to say well, we  
23 didn't have that information available, it's right on  
24 the questionnaire. The financial segment of the  
25 questionnaire asked every producer to explain their

1 accounting system.

2 I had a paralegal look at this. I was aware  
3 of it myself, but I had a paralegal just total it up.  
4 The idea that you'd actually submit a brief to this  
5 Commission to rely upon and not have somebody check on  
6 that, it makes no sense. Second, there's major  
7 problems with the comparisons that are used, there's  
8 major problems with the time periods used for  
9 inventories.

10 You've got a basis for inventory lags, it's  
11 the inventory turn. They do some very complicated ROA  
12 analysis data to figure out inventory time periods and  
13 it comes out with outrageous results. I grew up in  
14 the retail business. It's pretty easy to tell how  
15 you're turning your inventory.

16 If you have \$25,000 of inventory and you  
17 have \$100,000 of sales your inventory turn is four,  
18 your average inventory holding is three months. Here  
19 it's pretty consistent over the POI. I think during  
20 the first half the ending inventory as a percentage of  
21 shipments was about 15 percent, so it's about six  
22 times during the year it gets turned or about two  
23 months.

24 I mean, this is common sense. This guy's  
25 got a Ph.D. in economics and is using crazy numbers to

1       come up with this stuff. I took economics in college,  
2       but the fact that I can figure this out with one  
3       thing. I mean, they could literally have done the  
4       accounting at Enron. That's how bad the numbers are.

5               I don't mean to really throw too much mud,  
6       but we work hard here to try to get the numbers right  
7       --

8               COMMISSIONER LANE: Okay. Mr. Schagrín, Mr.  
9       Schagrín, slow down a minute.

10              MR. SCHAGRIN: So we'll give you a full  
11       analysis. I won't use your time.

12              COMMISSIONER LANE: Okay. So you are going  
13       to provide me with an analysis that you say is correct  
14       and that I can understand?

15              MR. SCHAGRIN: We will tell you what's wrong  
16       with theirs. I'm not going to redo the analysis  
17       because you already have a perfect staff report. We  
18       will tell you what is wrong with their analysis in our  
19       posthearing brief in great detail in a very  
20       understandable way.

21              COMMISSIONER LANE: Thank you.

22              CHAIRMAN KOPLAN: I think I just witnessed a  
23       filibuster.

24              MR. SCHAGRIN: I like Commissioner Lane's  
25       questions. I want more of them.

1           CHAIRMAN KOPLAN: Give her an opportunity.

2           COMMISSIONER LANE: Mr. Schagrin, on page 2  
3 of your brief you state that material injury is  
4 evident in the declines in production, shipments and  
5 capacity utilization. You also discuss shutting down  
6 production lines and reductions in work forces.

7           I would like for you to describe for me how  
8 declines in production, shipments and capacity  
9 utilization affect production payroll if the declines  
10 are not sufficient to cause a shut-down of an entire  
11 production line. In other words would you categorize  
12 payroll as being relatively fixed up to the point of  
13 shutting down an entire production line?

14           MR. SCHAGRIN: No, Commissioner Lane, and  
15 that's because of this issue of shifts, so I think  
16 several witnesses talked about. They might have a  
17 reduction going from 75 to 25 percent utilization, but  
18 because of the nature of the maintenance people in the  
19 mill you wouldn't see a two-thirds reduction in  
20 employees.

21           I think Maverick had essentially a 50  
22 percent drop in production utilization. They went  
23 from two shifts to one shift. Instead of laying off  
24 50 percent of their workforce they laid off 40 percent  
25 and that's generally because you still have to keep a

1 certain number of maintenance people, so it's not a  
2 direct relationship.

3 As has been pointed out at the tipping point  
4 when you've already cut the shifts back to the minimum  
5 then when you decide to close the mill everyone goes.  
6 So I think that payroll and hours lost are a good  
7 proxy, but it's not quite a one for one with the  
8 reductions in production. I think that's paid for of  
9 course in increased cost because it's not a one for  
10 one, so your conversion costs go up.

11 If your production goes down by 30 percent,  
12 but your payroll only goes down by 20 percent your  
13 production costs will increase as a result.

14 COMMISSIONER LANE: Could you describe what  
15 statistical data production and shipment declines or  
16 total shut-downs of facilities would be most important  
17 in evaluating material injury or threat of material  
18 injury?

19 MR. SCHAGRIN: Yes, Commissioner. I think  
20 that the data on the massive decline in production and  
21 shipments is very material.

22 I think that you have evidence that just  
23 within the past year you've had the shut-down of two  
24 production facilities by Northwest Pipe, and I'll talk  
25 about that further in our posthearing brief, and then

1 you've had all of these cutbacks in the number of  
2 shifts and thus in the number of workers, and I think  
3 those are all very relevant to a material injury  
4 finding.

5 COMMISSIONER LANE: This is a follow-up  
6 question. If the domestic industry is able to offset  
7 the bottom line impact of reduced output by reducing  
8 employee levels how should the Commission factor these  
9 reductions in employee levels into an injury analysis?

10 MR. SCHAGRIN: I'm glad you asked that  
11 question. I'm sorry Mr. Conway couldn't stay with us  
12 because I know he would have very strong views on that  
13 issue. I read the statutes, both the 421 statute and  
14 the Title 7 statute on material injury, as giving  
15 equal factor weight to the affect on employment by  
16 imports as other factors.

17 So when these business executives, be they  
18 with publicly traded companies, or privately, or  
19 family held companies, make decisions on profitability  
20 versus employment they make decisions that say we want  
21 to preserve profitability. The industry does that and  
22 preserves profitability at some level, but half the  
23 employees of an industry are laid off by reason of  
24 imports.

25 I think that's sufficient basis under the

1 statute for affirmative findings, and I think that's  
2 what Congress intended.

3 COMMISSIONER LANE: Thank you.

4 Rather than starting my next question which  
5 has multiple parts I will wait until the third round.  
6 Thank you.

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

9 COMMISSIONER PEARSON: A question for the  
10 pipe and tube producers. Were any of your firms  
11 placed on allocation by your steel suppliers in 2004,  
12 the first part of 2005 or in some other way found it  
13 challenging to obtain as much steel as you wanted?

14 Yes, Mr. Dooner?

15 MR. DOONER: Pete Dooner with Wheatland.  
16 No, we were not placed on allocation. We did  
17 experience that lead times extended out, but we  
18 received all the orders that we placed with our flat  
19 rolled sources.

20 COMMISSIONER PEARSON: Did the lead times  
21 extend enough so that you had to curtail your output  
22 for some period of time?

23 MR. DOONER: No. We didn't have to curtail  
24 output, but it was just very difficult. I mean, we  
25 worked a lot harder to get the steel. It was

1 something we didn't really even think about before  
2 that and we put a lot of effort into it.

3 COMMISSIONER PEARSON: Just in time  
4 inventory would be better on paper than in real life.

5 Others, please?

6 MR. BOGGS: Yes. Will Boggs with Allied  
7 Tube. I'd have to say our situation pretty well  
8 reflects what Pete said there. Our finished goods got  
9 pretty low at times. We saw some places out on the  
10 plant floor I hadn't seen in a while because it's  
11 usually covered up with inventory, so we were just  
12 barely in time most of the time.

13 COMMISSIONER PEARSON: When you say your  
14 finished goods got kind of tight that's what's going  
15 out of the plant rather than the steel that's coming  
16 in?

17 MR. DOONER: Right. As far as finished  
18 goods. Steel, we weren't put on allocation. Some of  
19 our lead times were extended a bit. Our prices were  
20 jacked up. More than we couldn't get it, we just had  
21 to pay more for it. That was a thing we experienced  
22 last year.

23 COMMISSIONER PEARSON: Others?

24 MR. VIVIAN: Paul Vivian from Maverick Tube,  
25 Commissioner Pearson. Exactly there. We neither did

1 not deliver or allocate to our customer nor were we  
2 put on allocation by our suppliers. Of course our  
3 proximity with Nucor once again, although not our only  
4 supplier, paid off there. For the most part we were  
5 able to supply.

6 We characterized this to our customers as  
7 not an availability issue, but a price issue.

8 COMMISSIONER PEARSON: Mr. Perrine?

9 MR. PERRINE: Bill Perrine of Sharon Tube.  
10 We were not placed on allocation, and we were able to  
11 receive the steel that we needed even though we  
12 historically do run tight inventories.

13 MR. BARNES: Scott Barnes, IPSCO Tubulars.  
14 We experienced no problems with availability of steel  
15 for our customers.

16 COMMISSIONER PEARSON: Again, you're sitting  
17 close to Nucor, right?

18 MR. BARNES: Close to Nucor in Blytheville,  
19 Arkansas. In Camanche, Iowa, we have a different  
20 facility, but we also receive shipments from Nucor as  
21 well as from IPSCO and some of our other suppliers.  
22 Through planning we had no issues.

23 MR. FINN: Don Finn, Western Tube. Our  
24 inventory became less, but we never had a problem  
25 servicing our customers.

1                   COMMISSIONER PEARSON: In the dynamic market  
2 environment that's prevailed in the last couple of  
3 years has there been any shifting away from the  
4 production of standard pipe to oil country tubular  
5 goods or other higher value products? Because I know  
6 some plants can run multiple products and some can't.

7                   MR. BARNES: Scott Barnes, IPSCO Tubulars.  
8 Yes. We have as I mentioned in my opening remarks  
9 we'd like not to chase the Chinese price levels down  
10 and as a consequence we have not shipped as much  
11 standard pipe. We've allowed some of those fringe  
12 markets that are further away near the ports and so on  
13 where typically price is the key factor to allow those  
14 orders to go elsewhere.

15                   We have the ability also to make oil country  
16 tubular goods at both our Camanche, Iowa, and our  
17 Blytheville facility and we have increased the  
18 production of those items.

19                   COMMISSIONER PEARSON: This might be  
20 proprietary so don't go where we ought not to go, but  
21 could you provide perhaps in posthearing some  
22 information on how much your production of standard  
23 pipe went down because of these factors, Mr. Schagrin?

24                   MR. SCHAGRIN: Commissioner Pearson, that's  
25 already on the record. The producers' questionnaire

1 already had a data table that asked everyone about all  
2 of their different production. In fact I believe it's  
3 summarized in the staff report.

4 That's why I would point out that the  
5 allegation of shifting is completely disproved by the  
6 information in your own staff report because in the  
7 first half of 2005 domestic production of standard  
8 pipe decreased by approximately 225,000 tons and total  
9 domestic production of all pipe and tube products  
10 decreased by 200,000 tons, so there's only an increase  
11 in all other products produced by these producers of  
12 25,000 tons.

13 So just doing the statistical analysis I  
14 would reach the conclusion unlike the Willkie Farr  
15 brief that based on data, not suppositions, only one  
16 out of every nine lost tons of the standard pipe  
17 industry was replaced by the production of any other  
18 pipe and tube product.

19 COMMISSIONER PEARSON: Go ahead.

20 MR. LUX: To follow up with that we would  
21 have liked to have done that, but we cannot at our  
22 Counce, Tennessee, facility which would only make line  
23 and standard pipe only. The reduction in the shift  
24 was due to the standard pipe market and not being able  
25 to produce enough and have the volume we needed.

1                   COMMISSIONER PEARSON: Now, some of you  
2 already have commented on whether there were  
3 limitations on what you could supply to your  
4 customers. Could we look at that more directly now?  
5 Those of you who haven't commented on it did you find  
6 it necessary in the last couple of years to either  
7 place customers on allocation or in some other way  
8 limit sales?

9                   MR. PERRINE: Bill Perrine from Sharon Tube.  
10 No. We didn't limit sales to anybody.

11                   MR. BARNES: Scott Barnes, IPSCO Tubulars.  
12 We did not limit sales to anyone; however, we were  
13 watching their historical order patterns. I guess  
14 these were to prevent customers from hoarding material  
15 in advance of all the talk within the marketplace. No  
16 one was ever given a limit.

17                   MR. MAGNO: Mark Magno, Wheatland Tube. At  
18 a very short period of time our lead times extended  
19 out beyond what is typically normal for us, but it  
20 appears as if people think that was for this  
21 tremendously long period. For Wheatland Tube Company  
22 it was a very significantly short period, and we  
23 serviced all the orders and did not allocate.

24                   MR. LUX: Neal Lux of Maverick. We did not  
25 put any of our customers on allocation.

1           MR. FINN: We did not put any of our  
2 customers on allocation and we serviced them  
3 throughout the whole year 2004. No problems.

4           COMMISSIONER PEARSON: Okay. So was there  
5 enough going on in the marketplace that buyers might  
6 have had an incentive to go look somewhere else for  
7 additional supply or was the supply just plain always  
8 there and the question was price?

9           Mr. Schagrin?

10          MR. SCHAGRIN: I think you should ask the  
11 purchasers. Clearly to me from the record the  
12 incentive was price. The ability to get a product at  
13 30 percent less than the going market rate means that  
14 purchasers would purchase the Chinese product  
15 regardless of domestic availability.

16          In the first half of 2005 when the domestic  
17 industry is cutting shifts right and left the fact  
18 that imports continue to double demonstrates that it's  
19 all about price.

20          I would invite Mr. Miller and Mr. Thompson  
21 to speak to the issue of whether or not your purchases  
22 of Chinese increased because of domestic availability  
23 issues or because Chinese prices were lower than  
24 domestic prices. Mr. Miller?

25          MR. MILLER: Yes. Tim Miller, Master Halco.

1 Yes. In fact there was a slight delay for probably a  
2 couple of weeks as the demand started to take off;  
3 however, as to Don and some of our other suppliers  
4 here we were always able to get product however we  
5 shifted a fair amount of product.

6 As I said we've shifted about a third of our  
7 purchases that was domestic. A third of our domestic  
8 purchases have now gone offshore and it's strictly  
9 price.

10 MR. THOMPSON: John Thompson with Merchant  
11 Metals. In 2004 we did shift more of our tonnages to  
12 be offshore for a combination of reasons.

13 The biggest single reason was the price of  
14 the Chinese product; however, I will say that the  
15 uncertainty of the supplier to our supplier sitting in  
16 this room was also a factor in the back of my mind as  
17 well that maybe pushed me to maybe buy a little more  
18 than I would have otherwise. You can't ignore the  
19 fact that the Chinese are out there with the cheap  
20 prices.

21 Let me just give you one example. I can't  
22 see what color light this is. Somebody throw  
23 something at me if it gets red.

24 COMMISSIONER PEARSON: You're okay yet.

25 MR. THOMPSON: Okay. I've got one trading

1 company that I buy from who actually sells and exports  
2 hot band to a mill offshore. It's not in China. The  
3 mill takes that hot band, converts it to pipe and  
4 sells it back to them in the U.S. It seems to me like  
5 a really efficient way to do things and I could take  
6 advantage of that, but they couldn't compete against  
7 the Chinese.

8 So I finally said to this trading company I  
9 said you're big, you must have contacts in China,  
10 can't you get me some pricing from China? This was in  
11 mid-2004. They said well, yeah we could, but the  
12 price has gotten so cheap we're afraid of dumping.  
13 This is what an importer told me.

14 I have one other situation where I buy pipe  
15 out of India and I buy from a mill that slowly  
16 integrated. That mill buys scrap, they melt it -- I  
17 mean, from soup to nuts, all the way from scrap to  
18 pipe. They couldn't compete with the Chinese. You  
19 know how they compete with the Chinese now?

20 They go to China and buy the hot rolled  
21 strip, take it to India to make the pipe out of it and  
22 ship it to me in the U.S.

23 COMMISSIONER PEARSON: Thank you very much.

24 And Mr. Chairman, thank you for your  
25 indulgence.

1                   COMMISSIONER KOPLAN:  Sure.  Commissioner  
2   Aranoff.

3                   COMMISSIONER ARANOFF:  Thank you.  I want to  
4   ask a question concerning price suppression, I guess.  
5   Obviously in this case, the record shows that prices  
6   have been going up during most, if not all of the  
7   period that we're looking at.  Some of them may have  
8   moderated some at the end of the period.

9                   Now, to find price suppression, the Commission  
10   doesn't have to find that the prices have actually  
11   declined, but just that they're lower than they  
12   otherwise would be.  That's something the Commission  
13   has always struggled with because it's hard to prove,  
14   but what I wanted to ask is -- as I read your brief,  
15   you're making to some extent, the price suppression  
16   argument, and if you are, on what evidence should the  
17   Commission rely in assessing the price suppressive  
18   effects the subject imports?

19                  MR. SCHAGRIN:  I think the Commission can rely  
20   entirely, in terms of the price suppression argument,  
21   on the difference between the increase in costs, the  
22   amount of increase besides the rate of increase,  
23   versus the increase in price.

24                  That's all costs; not just as I think you  
25   heard from these gentlemen today, while flat-rolled

1 may account for 60 to 70 percent of costs, you do have  
2 the cost of zinc, which has been increasing rapidly  
3 for galvanized products.

4           You have the cost of energy, which has just  
5 been going up two- or threefold in the last year, and  
6 is a major cost in this area. Then, of course, you  
7 have the cost penalties of lower production. So you  
8 can see the increase between the first half of 2004  
9 and the first half of 2005, and the other costs, as  
10 well as in the raw material costs. So I think that  
11 would form the basis of the price suppression.

12           I mean, looking at some products, you do see  
13 price declines in the range of anywhere from \$30 or  
14 \$40 to \$100 a ton, between the fourth quarter of 2004  
15 and the second quarter of 2005. So there is evidence  
16 that prices have been falling in the first half of  
17 2005, notwithstanding the fact that there are average  
18 values for the first half of 2005 that might still be  
19 higher than the average values in the first half of  
20 2004.

21           Prices have been coming down in the last  
22 couple of quarters of the POI. But most of the price  
23 suppression argument relates to the squeeze between  
24 higher costs and that higher total costs and prices of  
25 the product, which are squeezing profit margins,

1 continue to squeeze them even more so after the POI.  
2 But there is plenty of evidence that they've been  
3 squeezed during the latter part of this period of  
4 investigation. That's the basis for the price  
5 suppression argument.

6 COMMISSIONER ARANOFF: I understand the cost  
7 price squeeze argument. But I guess the problem with  
8 the cost price squeeze is, it's hard to say; you know,  
9 is that evidence of price suppression; or I mean, it's  
10 kind of the chicken and egg sort of argument.

11 MR. SCHAGRIN: I wouldn't disagree. I think  
12 the Respondents argue that, well, this is an industry  
13 that can quickly increase prices when their costs  
14 increase for that kind of an industry, and I don't  
15 deny that, when we don't have these kind of marketing  
16 conditions.

17 So in the context of this industry, the fact  
18 that you have this cost price squeeze for an industry  
19 that are merely fabricators of a product between  
20 flatland and pipe and tube, I think that is evidence  
21 of price suppression. I think if you ask any one of  
22 these producers, would their prices be different now,  
23 you know, but for 365,000 tons of Chinese pipe at 30  
24 percent lower prices over the past year, the answer  
25 from all of them would be, they would be different.

1           So there's definitely, I think, the causal  
2 connection between the huge volumes of low price  
3 Chinese imports and the price suppression that's  
4 occurred, the cost price squeeze that's occurred in  
5 the domestic industry.

6           COMMISSIONER ARANOFF: Thank you, you were  
7 making the point earlier that the employment effects  
8 and financial effects are put on equal statutory  
9 footing in terms of evidence of material injury to  
10 domestic industry. So I guess I have a two-part  
11 question for you.

12           Our data demonstrated, and most of this is  
13 on the public record, that the profitability of the  
14 domestic industry declined in the first half of 2005,  
15 when compared with 2004; but that 2004 itself was a  
16 record year, in many respects.

17           It's at least somewhat unusual, certainly in  
18 a steel case, to have the industry to have been  
19 profitable throughout the entire period that we're  
20 looking at by some pretty decent margins in some  
21 years.

22           I guess the first part of my question is,  
23 are you arguing harm on the profitability side at all,  
24 or are you telling us to look at other factors like  
25 employment? I'm going to assume you're going to

1 answer that it's both.

2 So my next question, which I would like the  
3 producers to answer, and I ask this in the most  
4 respectful way possible, if these profits that we're  
5 seeing are not enough to show a healthy industry, what  
6 would be?

7 MR. SCHAGRIN: Since you were right,  
8 Commissioner Aranoff, then my answer would be both.  
9 I'm going to just turn it directly over to the  
10 producers.

11 MR. DOONER: I'm not sure I understand.

12 MR. SCHAGRIN: I think the question is, if a  
13 six percent operating margin isn't considered by you  
14 to be high enough right now, what would you consider  
15 an adequate operating margin to be?

16 MR. BOGGS: Yes, Will Boggs, Allied Tube --  
17 you know, the way I see it right now, six percent is  
18 probably accurate in looking at my fence business way  
19 back in August. But I'm very concerned with  
20 September, heading down more like three percent. So  
21 that, to me, is trouble.

22 MR. VIVIAN: Paul Vivian from Maverick Tube  
23 -- I think our issue at Maverick is not six percent.  
24 It's not that percentage amount, and we do see it  
25 declining. We would agree with Mr. Boggs. But it's

1 six percent times some amount of sales generates some  
2 profit. Six percent times no orders generates no  
3 profit. That's when we're competing in the market  
4 against the selling price. We are seeing our orders  
5 evaporate to zero. So this product line disappears  
6 for us in terms of a production option.

7 MR. FINN: Don Finn, Western Tube -- our  
8 trend is going negative in our fence division. But  
9 the people that got hurt the most in the last 12  
10 months are our employees at our company. They went  
11 from, I'd say, the average W-2 of a working man at  
12 Western Tube was probably \$60,000. Now, it's \$40,000.  
13 They worked 12 hour shifts. Now they work eight hour  
14 shifts. That's been going on since June of 2004.  
15 They went from two twelves to eights.

16 Those men have been suffering for the 12  
17 months. The company's profits have been slightly  
18 going down, and I believe if this trend does not  
19 change, Western Tube Fence Division will be in the red  
20 in the fourth quarter.

21 COMMISSIONER ARANOFF: Well, I want to thank  
22 the industry representatives for those answers. They  
23 do lead me to my next question, which actually was  
24 about threat.

25 MR. SCHAGRIN: I have one more comment,

1 Commissioner Aranoff.

2 COMMISSIONER ARANOFF: Sure.

3 MR. SCHAGRIN: Because you're not new to the  
4 Commission but new as a member of the Commission, I've  
5 always been troubled by the idea that Mr. Barringer  
6 and others put out that this Commission should only be  
7 sought out by industries that our losing money. You  
8 would not believe how strong that myth is in the  
9 United States of America. I've had many potential  
10 clients tell me that, I have been told I cannot use  
11 the trade laws, unless I'm losing money.

12 I can tell you, in industry after industry,  
13 this industry is down almost half of its share of the  
14 U.S. market. In industry after industry, it's  
15 happening, and the weakest members are the ones who  
16 close down. People losing money close their factories  
17 and they get out of the data base.

18 So it's a given that the people who remain  
19 in the industry are always the strongest. Obviously,  
20 to be the strongest, you have to be amongst the most  
21 profitable.

22 But you know, if we deny relief to anyone  
23 who continues to make money, we're going to wind up in  
24 product area after product area, where U.S. industry  
25 finds its market share is going from 80 to 70, 60, 50,

1 40. Now if some people drop out, the remaining folks  
2 are profitable, for awhile. That's very troublesome.

3 I think at the start of your career, as a  
4 Commissioner for nine years, the idea of paying  
5 attention to the entirety of the record and not just  
6 profitability will be good for everyone in this  
7 country. Because people are not coming to this  
8 Commission and looking at general data on the economy.  
9 Profit margins are up to record levels. They're  
10 talking about profit margins throughout the economy of  
11 rates not seen since the 1950s.

12 That's not the case in this industry. These  
13 people used to make a lot more profits way back when.  
14 I see the red light is on. We'll answer your other  
15 questions in the next round. We'll be here.

16 COMMISSIONER KOPLAN: Thank you,  
17 Commissioner.

18 I want to turn to the industry witnesses, if  
19 I can. Mr. Dooner and Mr. Magno with Wheatland. I  
20 note that Wilkie Farr argues on page 24 of their pre-  
21 hearing brief that, "low capacity utilization rates  
22 are a typical phenomenon within this industry and not  
23 probative of material injury. Such low utilization  
24 rates are a function of product switching on the same  
25 equipment and relatively low fixed costs that provide

1 little incentive to run equipment at higher rates."

2 They go on and say, "Even as utilization  
3 dipped in the most recent period, industry  
4 profitability actually improved from the prior  
5 quarter."

6 My question is, how strong is capacity  
7 utilization linked to industry profitability in this  
8 industry, especially in light of the fact that  
9 multiple products, some of them non-subject, can be  
10 produced in the same manufacturing equipment?

11 MR. DOONER: Pete Dooner, again, with  
12 Wheatland -- I talked about Sharon, so if I could  
13 focus on Sharon, where we were, prior to the summer of  
14 2004 operating at 75 percent of capacity, and in some  
15 cases higher for periods of time. Today, we're  
16 running three 12 hour shifts, which is the equivalent  
17 of four and-a-half turns a week.

18 That plant makes really standard pipe A-53  
19 products. It can make conduit shell, but we don't  
20 think it makes a really good conduit shell. We prefer  
21 to make the conduit shells over at Wheatland. So  
22 really, in that case, the Sharon plant, which we think  
23 could be shut down if we don't get relief -- you can't  
24 run a CW mill at 22 percent of capacity. We're not  
25 able to ship products there.

1                   COMMISSIONER KOPLAN: Thank you, if I could  
2 stay with you on this next one. Commission staff  
3 provided company specific financial data in the pre-  
4 hearing staff report. I realized that yours is  
5 business confidential. So you could respond to this  
6 request for purposes of the post-hearing.

7                   But for this session, let me just say to you  
8 what struck me about Wheatland's company data. It was  
9 that your sales and operating profit trends were very  
10 different from some of the other large U.S. producers,  
11 particularly from 2002 through June of 2005.

12                   Will you provide further information  
13 explaining your net sales and operating profits for  
14 subject merchandize in 2004? If the issue is your  
15 cost structure, will you provide those specifics, as  
16 well? This can be done for the post-hearing.

17                   MR. SCHAGRIN: We'll do it in the post-  
18 hearing.

19                   COMMISSIONER KOPLAN: I appreciate that. I  
20 assumed that you would do that, post-hearing.

21                   MR. SCHAGRIN: Correct, we will.

22                   COMMISSIONER KOPLAN: Thank you; Mr. Lux and  
23 Mr. Finn, with Maverick and Western, or any of the  
24 other sales and marketing witnesses who want to jump  
25 in, in looking through Wilkie Farr's pre-hearing brief

1 at page four, they state, and I quote, "For many low-  
2 end applications, there are alternatives to standard  
3 pipe. PVC pipe, resin fence posts and other products  
4 are substitutable, and the prices of these products  
5 increased much less in the later part of the period of  
6 investigation than did standard pipe prices."

7 My question is, as prices continued to rise,  
8 to what extent did demand for subject pipe soften in  
9 the first half of 2005, due to the substitution of  
10 other kinds of pipe for low-end applications? Mr.  
11 Lux, and Mr. Finn, I'd like to hear from you.

12 MR. VIVIAN: Chairman Koplan, Paul Vivian  
13 from Maverick Tube.

14 COMMISSIONER KOPLAN: Okay.

15 MR. VIVIAN: What we have seen is that the  
16 PVC influence, when it hit the dynamic, when it came  
17 into the market, it took its market share. We have  
18 not seen an increase of PVC influence in our market.  
19 So on pricing, the influence of PVC has been  
20 negligible in our end of the business.

21 COMMISSIONER KOPLAN: Thank you.

22 MR. SCHAGRIN: Can you give some timeframes,  
23 Mr. Vivian, when you said winter came in?

24 COMMISSIONER KOPLAN: Can you give us a  
25 timeframe?

1           MR. VIVIAN: Yes, we're talking PVC hitting  
2 the market in mid- to late 1980s; so prior to our  
3 acquisition of LTV. So this has been a pretty  
4 stagnant market share for quite some time.

5           For having a fence, probably the most  
6 economical fence is a chain link fence. So the  
7 substituted products are way more expensive, so that  
8 is meaningless.

9           COMMISSIONER KOPLAN: All right, thank you;  
10 this is for Mr. Miller and Mr. Strittmatter and  
11 Thompson. I must say, Mr. Thompson, you are the first  
12 time I've heard a witness ask us if we were going to  
13 throw something at them if the red light is on. I'm  
14 going to make a mental note of that.

15           Wilkie Farr's pre-hearing brief, at pages 77  
16 and 78 states, and I quote, "In examining threat, the  
17 Commission should be cognizant of the fact that the  
18 presence of an end-use criteria in the definition of  
19 the subject merchandise effectively produced over-  
20 reporting by the Chinese industry.

21           By including within the scope all pipe  
22 meeting the Commission's physical description that is  
23 used or intended for use in standard and structural  
24 pipe applications, the Commission ensured such an  
25 outcome.

1           This is particularly true with respect to  
2 multiple stenciled product, carrying an API  
3 specification, which is traditionally classified by  
4 the industry as line pipe. The reality is that the  
5 Chinese industry seldom knows the end use of such  
6 product when exported. The whole purpose of multiple  
7 stenciled product is to create the broadest possible  
8 customer base for service centers handling the  
9 material, the consumer of the product, and hence the  
10 end use is not yet known."

11           As purchasers of subject product, is there  
12 any practical way for the Commission to collect  
13 separate data on only standard pipe without including  
14 all multiple stenciled products?

15           MR. THOMPSON: John Thompson with Merchant  
16 Metals -- I can just say that on the galvanized  
17 plain-end pipe that we purchase from China, we'd not  
18 had any duo-stenciled product come in.

19           MR. MILLER: Tim Miller with Master Halco --  
20 I'd share that same issue. It's always single  
21 stencil.

22           MR. STRITTMATTER: Don Strittmatter -- I  
23 deal in supply. We're not buying any Chinese pipe,  
24 strictly domestic pipe, to ASTM-A-53.

25           COMMISSIONER KOPLAN: But my question at the

1 same time is, is there a way for us to separate out  
2 our data, so that we can identify one or the other?

3 MR. SCHAGRIN: Chairman Koplan, I'll  
4 intercede. I'm a purchaser.

5 COMMISSIONER KOPLAN: You see where I'm  
6 coming from.

7 MR. SCHAGRIN: I see where you're coming  
8 from, and I don't understand the problem the Chinese  
9 are raising, because the data the Commission is using  
10 for import data comes from import statistics which do  
11 not contain any duo certified product. Because you're  
12 using only import data from the HTS-USA categories  
13 that don't provide for a product of a kind used in  
14 line pipe.

15 So nothing in the data base that the  
16 Commission has on import data has any duo stencil  
17 material at all, zero. That's a given. If it's got  
18 an API stencil on it, customer service requires that  
19 it be classified in a line pipe HTS, and that's not in  
20 your import data.

21 To the extent that the Chinese are over-  
22 reporting anything, I'd say it's got to be balanced  
23 out by the fact that they are under-reporting a lot of  
24 other things. I don't know, if you look at the last  
25 few years, there hasn't been huge amounts of Chinese

1 line pipe, except for the one year, 2003, in which  
2 there were 201 tariffs on standard pipe, and tariffs  
3 on line pipe that ended; which lead us to believe that  
4 they, like other folks subject to dumping duties on  
5 standard pipe, reasoned duo stenciling just as a way  
6 to avoid higher tariffs.

7           So I really don't think there's much of an  
8 issue. I think that for those folks here who would  
9 sell both standard and line pipe, they are standard  
10 pipe customers or they are OEA-53. The line pipe  
11 customers would order either API-5L or duo stenciled.  
12 They might be able to use it for standard. But they  
13 are ordering it in random links, 35 to 45 feet or  
14 something such as that.

15           So it's not much of an issue for the  
16 domestic industry. I guess you'll hear about this  
17 from the gentleman from Ferrostaal today; or for the  
18 people who compete with Mr. Strittmatter. He would  
19 not have a competitor in the New York area who would  
20 have to carry duo stenciled product. We're not using  
21 line pipe in building construction. Line pipe is used  
22 in pipelines.

23           So it's really only in the energy patch that  
24 you have folks who would carry duo stenciled product  
25 and want to reduce their inventory. It's a tiny

1 segment of the market place.

2 The duo stenciled issue, the reason we raise  
3 it, is to prevent circumvention. We don't want you to  
4 go through a day of hearing and three months of work.  
5 If the President were to grace us, by grace of God,  
6 with relief, that would be a total waste of time.

7 We've seen that in the past. We've got to  
8 do something of that circumvention. My colleagues  
9 over here who are attorneys on the other side, they  
10 specialize in circumvention. That's what happens in  
11 the trade front. I mean, that's their job. I'm not  
12 saying there's anything wrong with it. If it's legal,  
13 it's fine. But my job is to stop it.

14 COMMISSIONER KOPLAN: Do you think they'll  
15 stipulate to that?

16 MR. SCHAGRIN: Excuse me?

17 COMMISSIONER KOPLAN: Do you think they'll  
18 stipulate to that?

19 MR. SCHAGRIN: Well, it's true. I don't  
20 know if they'll tell the truth. I don't know if  
21 they'll stipulate to anything. Their credibility is  
22 not high with me.

23 COMMISSIONER KOPLAN: Thank you, and I see  
24 the red light didn't even come on. But I will move to  
25 Vice Chairman Okun.

1                   VICE CHAIRMAN OKUN: Thank you, Mr.  
2 Chairman. Mr. Schagrin, I want to go back to the  
3 price suppression arguments.

4                   You know, I looked at your brief, and I've  
5 heard your responses today. I think for me, at least,  
6 you need a little more specificity on what you're  
7 actually wanting us to look at in the record. Because  
8 again, I heard the response before which is, the  
9 Chinese are under-selling you. I got that. The  
10 margins are big. But if I look at 2004, when the  
11 Chinese were in with big volumes, and I look at these  
12 prices, your price increases.

13                  If you're asking me to look at 2005, if we  
14 go through the pricing of products, help me understand  
15 your price suppression argument. Again, if I look it,  
16 as I understand, product two was a big product for  
17 both U.S. and Chinese.

18                  Do I see price suppression there? I mean,  
19 are you asking me to look at the pricing of products,  
20 or are you asking me just to rely on Chinese volume in  
21 the market? You know, you've got some high costs in  
22 there.

23                  Because again, for the end of the period,  
24 you had hot rolled prices go down. So I think if you  
25 can't make it clear to me why you do not need to see,

1 as I think Commissioner Aranoff properly observed,  
2 there can be a cost price squeeze.

3 But where hot rolled has gone down and we  
4 know the timing, I need more specificity to what you  
5 specifically would point me to as showing price  
6 suppression.

7 MR. SCHAGRIN: We'll address this in our  
8 post-hearing brief, as well. But while prices are  
9 going down in the first half of 2005, and one can see  
10 from public data that steel price decrease  
11 announcements were happening. As I stated, for a lot  
12 of people in this industry, they're looking at their  
13 cost of production.

14 I mean, for sophisticated companies like Mr.  
15 Boggs, there's is the cost of production of his  
16 products each week. It's a report. This is how much  
17 it costs, and he's got to try to price accordingly.

18 If his accounting folks are telling him that  
19 our costs are at "x" and they're going up, what they  
20 are saying in effect is, he picks up the metal market  
21 and says, you know, prices are down \$20 last week for  
22 steel. He's going to try to price accordingly and he  
23 hasn't been able to do that.

24 In addition, in terms of evidence of current  
25 price suppression, the fact is that from the beginning

1 of August, there were announcements that steel costs  
2 were going to go up, as of September 1st. Yet, most  
3 of this industry hasn't even tried to pass along those  
4 cost increases. That demonstrates the current price  
5 suppression, and we'll address it, as well, in our  
6 post-hearing brief.

7 VICE CHAIRMAN OKUN: That reminded me, I  
8 wanted to ask this question earlier, which is looking  
9 at the data. Can the producers just help me out? Is  
10 the seasonality that we see in shipments related to  
11 just the fencing part, or is there seasonality for  
12 this industry in general, and is it really a September  
13 phenomenon which I see here?

14 MR. MAGNO: Mark Magno with Wheatland --  
15 certainly, you know, December is little bit slower.  
16 People have floor taxes, so they reduce their  
17 inventories, because they don't want to pay a whole  
18 lot of tax.

19 The summer is traditionally a little bit  
20 slower in the standard pipe market. Companies are  
21 shut down. They are on extended vacation, things like  
22 that, with the industrial markets. But for the most  
23 part, the standard pipe market, short of fence, does  
24 not have seasonality.

25 VICE CHAIRMAN OKUN: I see shaking heads.

1 Does anyone disagree with that, or have anything  
2 additional to add on seasonality; yes?

3 MR. BARNES: Scott Barnes, IPSCO -- we would  
4 only comment that November, also, with the  
5 Thanksgiving holiday, can be a weaker period, as well,  
6 with fewer shipping dates.

7 VICE CHAIRMAN OKUN: Okay, I appreciate  
8 that. Then I have just one follow-up with regard to  
9 financials to Chairman Koplan's question -- and Mr.  
10 Schagrin, of course, this is for post-hearing -- but  
11 that is, I know he asked with regard to one company.

12 I would ask if you would just help me out in  
13 post-hearing. Again, while we have to look at the  
14 industry as a whole in this case. There are some  
15 companies performing differently, and affecting the  
16 data. So if you could help us both understand those  
17 companies and how they're performing and what that  
18 means for our analysis, I'd appreciate that, as well.

19 MR. SCHAGRIN: We'll do that in our post-  
20 hearing brief.

21 VICE CHAIRMAN OKUN: Okay, and then I  
22 thought there were a couple other folks who had wanted  
23 to respond on the capacity utilization question that  
24 the Chairman asked.

25 Because I think, you know, again, if we're

1 looking through when the industry has been more or  
2 less profitable and how that relates to capacity  
3 utilization, I would appreciate hearing again, for  
4 those who are producing multiple products, is capacity  
5 utilization a good indicator or not; or are there  
6 other things we should be looking at, in determining  
7 the condition of the industry? I think that was you,  
8 Mr. Perrine.

9 MR. PERRINE: Bill Perrine from Sharon Tube  
10 -- first, I need to make it clear that we don't  
11 produce any other products. Our mill isn't capable of  
12 making rural country tubulars or fence. We make  
13 standard pipe. We make it in sizes one inch and down,  
14 Grade A only.

15 So with that said, as our capacity  
16 utilization increases, our costs go down. It is that  
17 simple. We make more profit when we run the mill more  
18 than we do when we don't run the mill more.

19 So from that standpoint, higher capacity  
20 utilization is something desirable, something we  
21 strive for, and our profit picture reflects that. We  
22 make better profits and did make better profits in  
23 2004 than we are currently in 2005 under the re-do  
24 situation. That's likely to continue at the current  
25 rate, if we don't see something.

1                   VICE CHAIRMAN OKUN: Are there other  
2 companies who could comment on capacity utilization,  
3 other producers?

4                   MR. SCHAGRIN: I would just say, I hadn't  
5 been able to find it before, Vice Chairman Okun, but  
6 the Commission's chart is at Table 3-2. I think it  
7 does demonstrate very clearly that in the first half  
8 of 2005, the industry was unable to shift its huge  
9 decrease in production of subject products to  
10 increases in non-subject products.

11                  VICE CHAIRMAN OKUN: Right, although I had  
12 looked at that chart, too, as well. I mean, to the  
13 extent there is shifting then to a higher valued  
14 product than standard pipe, you know, it's trying to  
15 understand whether that's just not a good business  
16 decision; as opposed to, it's not like you're shifting  
17 to something of lower value. So I guess I would  
18 invite you to comment on that more fully in post-  
19 hearing brief on whether we can't take that into  
20 account in looking at what that meant for the  
21 industry.

22                  MR. SCHAGRIN: And the only other comment is  
23 that, you know, with the exception of IPSCO and  
24 Maverick at their mills in Arkansas, and not at their  
25 mill in Tennessee, the vast majority of this industry

1 has no opportunity to shift to OCTG at all and, in  
2 fact, really has no opportunity to shift into any  
3 other higher value-added products. So for this  
4 industry, for the majority of the industry, shifting  
5 is not a feasible alternative.

6 Now, remember, the data in 3-2 is asking for  
7 a total company's data. So if Maverick has a mill  
8 with 750,000 tons of capacity where they make only oil  
9 country, all that data is in here. So it's not just a  
10 shift from mills, and that's why I think you see all  
11 this variety. From most of the mills making standard  
12 pipe, standard pipe is it, in terms of what they're  
13 going to be able to make on that mill.

14 VICE CHAIRMAN OKUN: I appreciate those  
15 further comments. Then in responding to Commissioner  
16 Lane, I was trying to sort through your, can I  
17 properly call it, tirade about Exhibits 8 and 9 of the  
18 Respondent's brief?

19 I just want to make sure that I'm  
20 understanding what errors you say and what they've  
21 done in Exhibit 8 and 9; whether you would agree or  
22 disagree that if we look for data on whether it's  
23 whether it's reporting FIFO or LIFO and making those  
24 distinctions properly.

25 I don't disagree at all on that; that the

1 Commission could or should look at the industry,  
2 taking into account the accounting practices to  
3 determine whether there is, in fact, any effect on how  
4 we view the profitability, vis-a-vis, the time lags  
5 involved.

6 MR. SCHAGRIN: Well, first, Vice Chairman,  
7 it couldn't have been a tirade, because I gave up  
8 tirades about 20 years ago, to protect my heart.

9 VICE CHAIRMAN OKUN: Okay, that was before  
10 time, because it sure seemed like a tirade.

11 MR. SCHAGRIN: It was, and I'm sure during  
12 your time on the Commission, you've never seen me have  
13 a tirade. But as I say, I think the best way to do  
14 this, and we're lucky in my firm, as we have a CPA as  
15 well as having access to a PhD economist. So I think  
16 that we will probably best give you all the details.

17 I don't think what they've done has  
18 correctable errors in it. I think it is too fraught  
19 with errors to be corrected. I don't really see a  
20 need, given what are not that long of lags. I  
21 understand the Commission has used lags before.

22 VICE CHAIRMAN OKUN: That's including in a  
23 case that you've brought here. I was trying to  
24 remember this, and I looked back at Light Rolled  
25 Rectangular Pipe and Tube from Mexico and Turkey.

1 Again, I understand every case is different, as it  
2 comes to us. But I believe it was you who was arguing  
3 for recalculation of profits, based on inventory and  
4 based on FIFO/LIFO.

5 MR. SCHAGRIN: Right, and I remember very  
6 vividly losing.

7 VICE CHAIRMAN OKUN: Exactly, I know that.  
8 I wasn't going to point that part out.

9 (Laughter.)

10 MR. SCHAGRIN: That's one of the reasons I  
11 don't do tirades. I mean, you might notice, and I  
12 know none of my colleagues at the big law firms now  
13 would ever do this. They thought I was crazy.

14 We actually withdrew a case on line pipe  
15 before this Commission before the final determination.  
16 Because we knew there was higher profitability. We  
17 knew that the Commission wouldn't accept arguments on  
18 why the profits had increased, in spite of a big  
19 import increase, and we decided not to waste the  
20 Commission's time or my time, because time is  
21 valuable, or my client's money.

22 So, you know, I think we do rely on  
23 precedents. I think that here the information -- and  
24 I can't give you confidential information on one of my  
25 clients -- in that particular industry, virtually

1 everyone used FIFO. In this, it's very different.  
2 But I would say that I'd like to rely, in general, and  
3 I've found over 20 years, it's the best thing before  
4 this Commission, on the data in the staff report. You  
5 know, we'll get into that in our post-hearing brief  
6 about Exhibits 8 and 9.

7 VICE CHAIRMAN OKUN: I have certain  
8 questions on that, but my right red directly in front  
9 of you is on, thank you.

10 MR. SCHAGRIN: Don't throw anything at me.

11 COMMISSIONER KOPLAN: Thank you for that  
12 exchange. Commissioner Hillman?

13 COMMISSIONER HILLMAN: Thank you, I have  
14 just a quick follow-up on last series of questions  
15 that I was asking, in terms of trying to understand  
16 this issue of the spread between your raw material  
17 costs, your hot rolled prices, and your sales prices.

18 Just so you understand, Mr. Schagrin, where  
19 I was coming from in asking that question. Again, I  
20 am asking in the post-hearing for you to tell me why  
21 what I've done is wrong or how you would suggest that  
22 we look at it.

23 I did look at the data two ways. One, I did  
24 look at the comparison data that Respondents provided  
25 in their Exhibit 1, just the raw data, in terms of the

1 prices of hot rolled, the prices of cold rolled, the  
2 prices of hot dipped sheet, versus the sales prices,  
3 in terms of just trying to understand what happened to  
4 these spreads.

5 But I also looked at the Commission's data  
6 on sales values versus raw material values. All I'm  
7 saying is, whichever way you look at it, it definitely  
8 shows this increase over our POI in the spread between  
9 sales values versus raw materials.

10 Now I understand that raw materials does not  
11 capture energy, because that's going to be in our  
12 other factory costs. I understand that. But I'm  
13 still saying it looks to me as though this spread has  
14 been increasing.

15 So to the extent that you are continuing to  
16 make a cost price squeeze argument, I'm just asking  
17 you to help me understand how you would have me look  
18 at that data, in terms of furthering your argument on  
19 the cost price squeeze. That's just so you understand  
20 the basis of my question. Is that clear, Mr.  
21 Schagrin?

22 MR. SCHAGRIN: Yes, it's clear, and I think  
23 you're probably using Table 3-8 in the staff report.  
24 That's the one that you're probably referring to.

25 COMMISSIONER HILLMAN: Certainly, that's the

1 financial data that would have showed us sales values  
2 versus raw material costs, dollars per ton.

3 MR. SCHAGRIN: Raw material, yes, okay, I  
4 understand.

5 COMMISSIONER HILLMAN: If I could then go  
6 back, just to make sure again, I understand this issue  
7 on raw material costs. I was just finishing with this  
8 issue of how much product.

9 It would be helpful for me to understand,  
10 and maybe it comes from the steel producers. Of the  
11 total product of standard pipe that we're looking at,  
12 how much is made using hot rolled, how much is made  
13 using cold rolled, what percentage of it is made using  
14 hot dipped galvanized sheet? I don't know whether  
15 anybody has a general sense of that, or whether the  
16 steel producers in the back of the room want to say  
17 anything about that; Mr. Dooner?

18 MR. DOONER: Pete Dooner with Wheatland --  
19 on standard pipe, if you're asking about standard  
20 pipe, hot rolled is just about 100 percent of what we  
21 used. The raw material that goes into standard pipe  
22 is hot rolled.

23 COMMISSIONER HILLMAN: Okay, about 100  
24 percent -- someone else had said that they were still  
25 continuing to use it. I think someone else was

1 continuing to use some cold rolled.

2 MR. SCHAGRIN: That was Mr. Boggs in the  
3 fence area, and maybe Mr. Finn wants to comment on  
4 that. In that one area, that is the one area in which  
5 cold rolled is still utilized.

6 COMMISSIONER HILLMAN: In fence?

7 MR. SCHAGRIN: In fence, correct.

8 MR. FINN: This is Don Finn, Western Tube.  
9 In the like gauge residential, for 16 gauge and under,  
10 it's cold rolled.

11 COMMISSIONER HILLMAN: Okay.

12 MR. SCHAGRIN: Which is what percentage, Mr.  
13 Finn, of your total hot rolled versus cold rolled?

14 MR. FINN: Of Western's mix, 50 percent of  
15 the fence market in the West Coast is residential. So  
16 Mr. Miller made the comment that he would paid 10 or  
17 12 percent. When we submitted these reports in July,  
18 we had price sheets that were \$727 a ton for 065  
19 material. Now it's \$700 for arrivals in November and  
20 December. They've come down four percent.

21 The steel cost is roughly \$640. The zinc is  
22 roughly \$60. So that's \$700. He's willing to let us  
23 make 12 and-a-half percent above the Chinese, so our  
24 selling could be \$800. That would give you a material  
25 cost of 87.5 percent.

1           There is not a company in the world that  
2 would want that order. Yet, they're willing to sell  
3 it at \$700 a ton. I mean, we want fair competition,  
4 but this is not fair. They are selling at our steel  
5 costs in the zinc. It's not for awhile. It's been  
6 for 12 months.

7           We chose, at our company, in the brief that  
8 Mr. Terao said, not to go down there, because as I  
9 said, we'd lose even more money. Because marginally  
10 speaking, if we sold at \$800 a ton, we would have been  
11 in the red in the second quarter. We made a profit.  
12 Is that a sin to make a profit?

13           COMMISSIONER HILLMAN: Like I said, I'm  
14 trying to make sure I understand exactly these  
15 relationships between your steel costs. Again, just  
16 overall -- and maybe I ought to go back to Mr. Nolan  
17 or some of the others, Mr. Tatom, or some of the other  
18 steel producers -- from your perspective selling into  
19 the tubular industry, can you just help me get a sense  
20 of how much of your sales are hot versus cold versus  
21 hot dipped galvanized?

22           MR. NOLAN: Commissioner, John Nolan, Steel  
23 Dynamics -- I don't know that I can quantify it for  
24 you, because I didn't look at the data before I came  
25 down. But I would tell you that it is predominantly

1 hot rolled.

2 COMMISSIONER HILLMAN: Any of the other  
3 steel producers?

4 MR. TATOM: Pat Tatom, WCI Steel -- our  
5 customers being primarily Wheatland and Sharon Tube --  
6 due to geographical reasons, it is 100 percent hot  
7 rolled.

8 COMMISSIONER HILLMAN: Hot rolled, okay, and  
9 prices on the steel side, again, I would assume that  
10 prices are moving in some sort of relatively tandem  
11 order for hot rolled versus cold versus hot dipped,  
12 Mr. Nolan?

13 MR. NOLAN: Generally speaking, as the  
14 market moves, all products on the market move, yes.

15 COMMISSIONER HILLMAN: All right, then if we  
16 can get back to the issue of A versus B Grade product,  
17 you all had given a lot of answers. I'm not sure,  
18 however, that I heard an answer on what is the normal  
19 or traditional either price difference or cost of  
20 production difference for Grade A versus Grade B  
21 product.

22 We heard testimony from the purchasers, but  
23 I didn't hear any of our purchasers saying that they  
24 did both A and B. So I understand you may not be able  
25 to give me a price comparison. But I wonder if

1 anybody else in the industry can give me either a  
2 price or a cost comparison on the difference between  
3 Grade A versus Grade B, say, A-53 pipe.

4 MR. MAGNO: Mark Magno from Wheatland Tube -  
5 - on a panel with my industry colleagues and  
6 competitors, I'm a little bit reticent to give pricing  
7 information. That said, however, the prices between A  
8 and B fluctuate or have fluctuated.

9 COMMISSIONER HILLMAN: Okay, Mr. Schagrin,  
10 perhaps in the post-hearing brief, if we could get  
11 some actual numbers on, again, the difference between  
12 same product, but A versus B -- same meaning same  
13 specs in terms of size.

14 MR. SCHAGRIN: Correct.

15 COMMISSIONER HILLMAN: A versus B, I think  
16 it would help. Is the difference the difference of  
17 the steel going into it, or is the difference that it  
18 is harder, more costly to produce, to actually make  
19 the tubular products out of one versus the other?  
20 Where does the cost difference between the two come  
21 from?

22 MR. MAGNO: I'm not an engineer  
23 metallurgist. So my understanding is, the steel is  
24 relatively the same between the two products. We  
25 produce it on two separate mills. The Grade A would

1 be on continuous weld mills, which go very fast.  
2 However, they have significantly high energy costs to  
3 keep those furnaces going.

4 The Grade B product that we produce is  
5 formed on an electric weld mill, and right at the top, it  
6 has what's called a seam annealer to provide it to be  
7 the Grade B and to let it go to higher pressures and  
8 higher tenses. We have to run it a little bit  
9 slower. It has a longer run-out on the Grade B  
10 product. So it's two different manufacturing  
11 processes.

12 COMMISSIONER HILLMAN: Is that done  
13 industry-wide, that the two must be made on an  
14 electric arc, electric ERW process, and the other can  
15 be made on a continuous weld?

16 MR. SCHAGRIN: Everything is always  
17 complicated. The answer is, yes and no. Industry  
18 specification rules, made up by the ASTM, the American  
19 Society for Testing and Materials, will not allow a  
20 product made on a continuous weld mill, to my  
21 understanding, to be stenciled as Grade B. On an ERW  
22 mill, the producers have the choice of doing either.

23 COMMISSIONER HILLMAN: Okay.

24 MR. SCHAGRIN: So we don't even think the  
25 Chinese have CW mills. So the Chinese could make A or

1 B, and in the U.S., the ERW mills could make A or B.

2 COMMISSIONER HILLMAN: Okay, and from the  
3 cost perspective, what I'm hearing you say is, there's  
4 pluses and minuses. So it isn't inherently that one  
5 process is more costly, from your standpoint, than the  
6 other. One is faster, but higher energy costs; one is  
7 slower, but lesser energy costs.

8 MR. PERRINE: Can I interject, just  
9 momentarily?

10 COMMISSIONER HILLMAN: Go ahead.

11 MR. PERRINE: Bill Perrine -- I do not make  
12 the products. But in a former life, I was a  
13 metallurgical engineer, and we do have ERW mills for  
14 other purposes.

15 The issue that Mark is talking about, seam-  
16 in-yielding, there's a cost to do that. There's an  
17 electrical cost to do that, as well as a speed cost on  
18 the mill. Our analysis, because we've considered  
19 those markets, indicates that that's a cost premium of  
20 \$100 to \$150 a ton, just typically.

21 COMMISSIONER HILLMAN: So your sense is that  
22 --

23 MR. PERRINE: Grade B costs \$100 to \$150  
24 more to manufacture than Grade A.

25 COMMISSIONER HILLMAN: Because of the ERW

1 process?

2 MR. PERRINE: No, the ERW process is the  
3 same. But the heat treating of the weld area after  
4 the ERW process -- there's a premium for doing that.

5 COMMISSIONER HILLMAN: And is the heat  
6 treating of the weld what is required, in order for it  
7 to be stenciled B?

8 MR. PERRINE: Correct.

9 COMMISSIONER HILLMAN: Okay, I appreciate  
10 those answers, thank you.

11 COMMISSIONER KOPLAN: Thank you,  
12 Commissioner; Commissioner Lane?

13 COMMISSIONER LANE: Thank you; Mr. Schagrin,  
14 I think it would be helpful to have for the record  
15 what is your proposed definition of the domestic  
16 industry. Specifically, what is the domestic like for  
17 directly competitive product? Is it just one like  
18 product, and who produces it?

19 MR. SCHAGRIN: It is one like product,  
20 Commissioner Lane -- one like product composed of  
21 essentially circular welded, non-alloyed pipe that  
22 covers the range, I guess, from about 3/16ths of an  
23 inch or a quarter of an inch to 16 inches in OD, that  
24 is not an oil country tubular good, not line pipe used  
25 as line pipe, not mechanical tubing, not pressure pipe

1 grade products, and obviously not rectangular.

2 That product definition, you know, would  
3 cover in terms of its normal uses. We agree with the  
4 information on like product in 1-7 of the staff  
5 report, which obviously we had a hand in drafting, at  
6 least in terms of submitting the petition and then the  
7 Commission took it from there. We agree with that  
8 description of both the subject product and the like  
9 product that follows it in the staff report.

10 COMMISSIONER LANE: Okay, thank you, I'll  
11 stay with you. On page 25 of your brief, you state  
12 that the current condition of the domestic industry  
13 makes it especially vulnerable to material injury from  
14 dumped imports. In the remedy section, which begins  
15 on page 26, you emphasize the pricing impact of  
16 Chinese imports. However, you argue for a quota.

17 In doing so, you cite the volume of imports,  
18 new importers, and non-reporting mills. You argue  
19 that the effect of the tariff is relatively  
20 speculative, and would not be passed through. Can you  
21 elaborate on those arguments, including why a tariff  
22 or tariff rate quota would not be effective in  
23 addressing the alleged material injury? It's just a  
24 simple question, Mr. Schagrin.

25 MR. SCHAGRIN: That's okay, and if Dr.

1       Blecker would like to pipe in on this at all, I would  
2       invite him to.

3               Our recommendation of a quota is based upon  
4       a couple of factors. First, as we've argued from the  
5       beginning of the case, we believe that the most  
6       dramatic effects on the U.S. industry of the imports  
7       from China have been on the production indicator  
8       factors, production shipments employment, as well as  
9       profitability. The most dramatic have been on the  
10      production factors. We believe the best way to solve  
11      that is through a quota.

12              Our problem with a tariff or a tariff rate  
13      quota is the extremely high margins of under-selling  
14      here, anywhere from 30 to 40 percent, would mean that  
15      a tariff level would have to be extremely high in  
16      order to have any impact on quantity.

17              The fact that there was information, at  
18      least during 2003, where there was significant imports  
19      from China, that either Chinese producers and/or  
20      importers were sharing the costs of the tariff and,  
21      therefore, not that much of the tariff was being  
22      passed through to U.S. customers, that means that  
23      you'd have less of a price effect on the imports.

24              So that's our basis for recommending a  
25      quota. We're concerned about the lack of pass-through

1 of a substantial portion of the tariff and extremely  
2 high margins of under-selling here, not making a  
3 tariff-based relief very effective for this industry.

4 COMMISSIONER LANE: Mr. Blecker, did you  
5 have something you wanted to add?

6 MR. BLECKER: I have nothing to add at this  
7 time. I agree with what Mr. Schagrín just said.

8 COMMISSIONER LANE: Thank you, my last  
9 question relates to the Chinese Respondent's brief.  
10 It discussed a steel intensity index. It is in Wilkie  
11 Farr's brief at page 46, which they state can indicate  
12 how much pipe is being used in the construction  
13 industry.

14 According to these Respondents, the pipe  
15 intensity index has declined since 2000. Could  
16 industry witnesses please comment on whether or not  
17 they have seen a decline in the number of applications  
18 which use standard pipe?

19 MR. SCHAGRIN: I also invite purchasers to  
20 comment. I'll ask the producers, first.

21 COMMISSIONER LANE: You'd better identify  
22 yourself for the court reporter, please.

23 MR. MAGNO: Thank you, Mark Magno, Wheatland  
24 Tube -- as we had stated, our products go generally  
25 into non-residential construction. I'm not aware of

1 this steel intensity index.

2 Non-residential construction had been  
3 really, post-911, taking a significant decrease and  
4 had what we would characterize as being in a trough,  
5 which is a long-term period of no growth. Up until  
6 just recently, it has started to show some life of  
7 non-residential construction.

8 Some areas of significance in those figures,  
9 manufacturing continues -- and that's where they would  
10 use some heavy wall-standard pipe products. The  
11 manufacturing base in the United States continues to  
12 be very depressed on construction. But more  
13 commercial applications, like hotels or big box  
14 retailers, office buildings, that part has shown a  
15 little bit of life of late.

16 COMMISSIONER LANE: Okay.

17 MR. SCHAGRIN: Is there anything from the  
18 purchasers? What this really goes to is a term  
19 invented by economists as pipe intensity mix. We're  
20 really talking about, as the price of pipe has  
21 increased, have you, as purchasers, seen other  
22 products used in place of steel pipe.

23 MR. THOMPSON: John Thompson with Merchant  
24 Metals -- yes, we have seen some of that. As the  
25 pricing of pipe increases, some of the more expensive

1 alternatives tend to be used.

2 For example -- and I'm talking about fencing  
3 right now because that's like my life, okay. In the  
4 residential arena, we've seen chain link fence is  
5 frequently prohibited in restrictive covenants of  
6 neighborhoods.

7 But we've also seen the words non-prohibited  
8 as the pricing increases or the availability  
9 decreases, which tends to happen both at the same  
10 time. Then the delta between a chain link fence and a  
11 wood fence or a PVC fence goes down and the homeowner  
12 tends to make that change.

13 We see that, as well, on commercial jobs,  
14 where there are some other ornamental applications  
15 that are normally more expensive than chain link. As  
16 availability tightens and sometimes pricing goes up,  
17 then we see a movement towards those other products  
18 that are not made out of standard pipe.

19 COMMISSIONER LANE: Mr. Blecker, I think you  
20 had wanted to respond?

21 MR. BLECKER: Thank you, Robert Blecker of  
22 Schagrin Associates -- yes, actually, in the one  
23 diagram I did not put in my Power Point, but it was in  
24 my pre-hearing submission, it's Figure 4 in, I guess,  
25 it's Exhibit 3 of our per-hearing brief. I have a

1 diagram comparing apparent consumption of the subject  
2 project with the Bureau of Economic Analysis measure  
3 of real -- that's inflation adjusted -- investment in  
4 non-residential structures, which we think is the main  
5 demand driver for this industry.

6           There are some year-to-year fluctuations,  
7 but on the whole, over the whole POI from 2000 to  
8 first half of 2005, they track each other pretty  
9 closely. I would have to look in more detail at what  
10 the Respondents did in the post-hearing. But I think  
11 they're mixing up two issues. One is that non-  
12 residential construction has not done as well as  
13 residential construction in the recovery since the  
14 recession, and indeed in this whole half decade since  
15 2000.

16           There was been softness in non-residential  
17 construction, but not a decrease in the intensity of  
18 the use of standard pipe in non-residential  
19 construction, as long as we stick to non-residential.

20           COMMISSIONER LANE: Okay, thank you, my time  
21 is up, and thank you, Mr. Chairman.

22           COMMISSIONER KOPLAN: Thank you,  
23 Commissioner; Commissioner Pearson?

24           COMMISSIONER PEARSON: Table 3-9 in the  
25 confidential staff report provides a summary of

1 operating margins for firms in the industry. Of  
2 course, because it is in the confidential table, I  
3 understand most of you won't have seen it.

4 But I could observe that there's a wide  
5 disparity in profitability among firms in the domestic  
6 industry. While a small number of firms lost money in  
7 interim 2005, several firms had operating margins in  
8 the double digits. Are there factors relating to this  
9 investigation that helped to explain the disparity in  
10 earnings?

11 MR. SCHAGRIN: I think that we should  
12 address that in our post-hearing brief, Commissioner  
13 Pearson. I can't think of any, off-hand. I think  
14 that some companies get some benefits of size and  
15 strength, which is not untypical in any industry. But  
16 I think it would be best if we address that question  
17 in our post-hearing brief, where we could actually  
18 discuss the information, because it is all  
19 confidential.

20 COMMISSIONER PEARSON: Okay, that's fine.  
21 But then do address whether there are any firms that,  
22 because of their product mix suffer disproportionate  
23 competition with the product that the Chinese  
24 primarily are sending in?

25 MR. SCHAGRIN: We will do so.

1                   COMMISSIONER PEARSON: Do some firms have  
2 unfavorable cost structures such that it would be  
3 difficult for them to make money, even if there were  
4 no Chinese imports? I note, again, from this table  
5 that even in 2002, when Chinese imports were low, not  
6 all firms in the U.S. industry were profitable.

7                   MR. SCHAGRIN: I cannot think of any  
8 unfavorable cost structures for any firms represented  
9 at this table. I remember that 2002 was the tail end  
10 of a recession. So that was not a good period, in  
11 general, in terms of the demand side.

12                   But you know, really, the producers who  
13 would have had the most difficulty would have left the  
14 industry; companies like McLeod Steel. Whether it was  
15 their own difficulties, I really think it was a  
16 question of, for firms that operate mills that require  
17 high capacity utilization in order to keep costs down,  
18 whenever imports are high or market demand is down.  
19 Those companies will tend to suffer the most; the  
20 firms with the most fixed assets that require the  
21 highest rate of utilization to be successful.

22                   COMMISSIONER PEARSON: Okay, well, just from  
23 my perusal of this table, it does seem that some firms  
24 might be positioned to compete more effectively than  
25 others in the domestic market.

1                   So at least hypothetically, it's possible  
2                   that if there were no Chinese imports, that there  
3                   still could be such intense competition among the  
4                   firms represented on this panel, that the ones that  
5                   were having a tougher time might still not do well.  
6                   There's plenty of competition sitting right here. I'm  
7                   not sure you need much more, if that's fair. That's  
8                   what I'm trying to understand here.

9                   MR. SCHAGRIN: You have to remember, these  
10                  folks are now only competing for 55 percent of the  
11                  market which is, to me, still just amazing. I stated  
12                  that I was representing these folks, starting 23 years  
13                  ago. I can remember eight or ten companies in this  
14                  product are that no longer exist today. That's over a  
15                  20 year period.

16                  I think it was Mr. Perrine's testimony that  
17                  he started before I started representing them. I  
18                  think he started in 1971. He stated there's 20  
19                  companies that were in existence at the time he  
20                  started, 34 years ago, that are not around today.

21                  So we've had a huge shake-out. It's not  
22                  untypical of the steel industry, in general. I would  
23                  say the folks at this table, they are the survivors in  
24                  space. These are the best of the best.

25                  Because we do care about whether the Chinese

1 are trading unfairly or not, the fact that the Chinese  
2 producers couldn't hold a candle, in any way, shape or  
3 form, to the productivity and competitiveness of these  
4 mills, just demonstrates how tough that competition  
5 is, when they are actually very, very unproductive,  
6 uncompetitive mills, but they are selling at below  
7 U.S. producer's raw material costs.

8 COMMISSIONER PEARSON: Right, I understand  
9 that. But still, given that the U.S. firms are  
10 serving only now 55 percent of the market, some of  
11 them are doing it in a way that they are finding  
12 admirably profitable, and some others are not.

13 MR. SCHAGRIN: Well, we'll comment on that.  
14 But I would remind you, and I hope we don't get to  
15 this point, that if there would, God forbid, be a  
16 negative determination, the people who are admirably  
17 profitable today will be unprofitable by the end of  
18 this year. That's how bad the situation is, and  
19 that's sworn testimony, and we'll comment on Allied's  
20 particular figures. We'll provide some of them in our  
21 post-hearing submission

22 But you know, even the most profitable  
23 companies in this industry are facing the prospect of  
24 operating at losses in the present time period and in  
25 the next quarter. That, to me, both demonstrates

1 injury and the very real and imminent nature of the  
2 threat.

3 COMMISSIONER PEARSON: Shifting gears,  
4 there's a discrepancy between the numbers of cost of  
5 goods sold in the staff report, Table 3-8. That table  
6 shows cost of goods sold increasing in 2005. On the  
7 other hand, the Respondents have provided Exhibit 1  
8 that shows prices of hot rolled steel sheet declining  
9 from January to June 2005 from, what, \$600 to \$495.  
10 You've probably looked at this. Do you know why there  
11 is that discrepancy?

12 MR. SCHAGRIN: Yes, and it's not just a lag  
13 between when the product is purchased and when it is  
14 used. But these producers -- unlike what we've heard  
15 in some other steel cases about people changing prices  
16 of imports while the ship is on the water -- these  
17 producers, when they make an agreement with the steel  
18 mill to buy "x" amount of tons for delivery.

19 Let's say steel mill lag times are normally  
20 12 to 16 weeks out, and they go up and down and it's  
21 when they go up and down that affects pricing on their  
22 lead times, if they order product at whatever the  
23 price was in January, as you stated, which might have  
24 fallen until June with their lead time of 12 or 16  
25 weeks, and in that interim 12 or 16 weeks or eight to

1 twelve weeks, whatever the time period might be, spot  
2 prices fall.

3           These pipe producers don't go back to their  
4 steel supplier and say, well, your price went down by  
5 \$20. I want you to adjust the price on the product  
6 already ordered from you. They don't do that, just as  
7 they don't expect the mills doing it the other way.

8           So you do have periods in which costs are  
9 increasing, not just because of lags in inventory or  
10 usage. But just because, as prices are changing,  
11 there's a time period in effect when higher cost  
12 material is still going to come in. Then it can  
13 change the other way.

14           I think that's probably the biggest  
15 explanation for why, in the first half of 2005,  
16 average costs of steel are higher than average costs  
17 of steel in probably either the first half of 2004 or  
18 the second half of 2004; even though data in a table  
19 might show that according to the purchasing magazine,  
20 certain prices are falling. I don't know if any of  
21 the producers would to comment on that.

22           MR. NOLAN: Commissioner Pearson, this is  
23 John Nolan, Steel Dynamics. I just want to affirm  
24 what Roger said in this way. I believe what he was  
25 suggesting is that we, as steel producers, go to the

1 marketplace. This is a segment of the market that we  
2 serve. We take a purchase order from them. That  
3 purchase order is fixed in terms of volume; to extent,  
4 timing. We like to believe that we make delivery when  
5 we commit to delivery. But, in terms of price, let me  
6 say it this strongly, price is sacrosanct on those  
7 purchase orders. We do not adjust the price of a  
8 purchase order down when the market collapses. We  
9 have an expression, a deal is a deal. You gave me a  
10 purchase order at this price; you support that. If  
11 the market declines, the next purchase order I take, I  
12 take in the context of what the market will bear at  
13 that time. And that's how we do it.

14 COMMISSIONER PEARSON: Okay.

15 MR. SCHAGRIN: The only other thing I  
16 mentioned in Table 3-A, I think you were referring to  
17 cost of goods sold. And, of course, the other cost,  
18 both direct labor and then, of course, other factory  
19 costs, they both went up. In fact, other factory  
20 costs are up by \$35 a ton. So, the other costs are  
21 moving. In fact, the volatility tends to be in steel;  
22 but, it seems that all other costs are inextricably  
23 moving up. Only steel tends to move up and down.  
24 Every other cost seems to just constantly increase.

25 COMMISSIONER PEARSON: Okay, thank you.

1                   CHAIRMAN KOPLAN: Thank you, Commissioner.  
2 Commissioner Aranoff?

3                   COMMISSIONER ARANOFF: I want to go back to  
4 the question that I didn't quite get around to asking  
5 the last time around concerning threat and it, also,  
6 ties into some of the questions about profitability  
7 that Commissioner Pearson was just raising. It's been  
8 generally reported in the press that rebuilding after  
9 Hurricane Katrina is likely to drive up demand for and  
10 prices for basic building materials in the United  
11 States. And I'd like to ask some of the producers  
12 what affect you think that the aftermath of Hurricane  
13 Katrina will have on the price and availability of  
14 standard pipe in the U.S. market. And I'd also like  
15 to ask, perhaps from some of the hot-rolled producers  
16 in the back, whether they think there will be any  
17 affect on hot-rolled prices.

18                  MR. BARNES: Scott Barnes, IPSCO Tubulars.  
19 I think the question about Hurricane Katrina will  
20 always be looked at both in the near and the long  
21 term. And in the short term, we have many customers,  
22 who are affected by the destruction down there and so  
23 they're not going to be taking product and that -- I  
24 think we'll see a drop off, initially. And then as  
25 the rebuilding begins, there will be a pickup. So,

1 over the extended period of time, I don't think there  
2 will be a big change in the overall scheme of things.

3 MR. MAGNO: Mark Magno, Wheatland Tube. I  
4 would caution, when people talk about building  
5 products, to also to consider standard pipe in that  
6 group, also, when it relates to Katrina. Certainly,  
7 the building products that we would view, lumber,  
8 concrete, shingles, things like that is built, are  
9 products aren't -- almost exclusively are not used in  
10 residential markets. And in -- are they going to  
11 rebuild to a dramatic extent some of the commercial  
12 markets. We're not sure about that. We don't see it  
13 having a significant impact on our demand or very  
14 little impact on our demand, just because standard  
15 pipe products don't specifically go into the areas  
16 that we believe are going to be rebuilt

17 COMMISSIONER ARANOFF: Okay. Get a comment  
18 maybe from some of the hot-rolled products, because I  
19 know, for example, that the Bush administration is  
20 currently considering the question of reducing  
21 existing trade remedies on some building materials and  
22 I think steel has been mentioned on that list. Do you  
23 think that any rebuilding that goes on will have an  
24 affect on your prices?

25 MR. NOLAN: Commissioner Aranoff, John

1 Nolan, Steel Dynamics. I believe that in a very broad  
2 and general sense, Hurricane Katrina will disrupt  
3 trade in that area for some time, but that is only one  
4 of the trading centers of the country. And I believe  
5 that -- in a products-specific sense, I can't envision  
6 that circumstance will, with the exception of  
7 restricting possibly some imports to that market,  
8 which make their way into other countries for a short  
9 period of time, I can't believe that the storm will  
10 materially impact hot-rolled products in either of an  
11 up or down context.

12 COMMISSIONER ARANOFF: Okay, thank you. I  
13 have one other question and that deals with remedy.  
14 And, hopefully, this wasn't asked. This being a  
15 rather lengthy hearing, there was a line for the  
16 restroom, so I missed a few. But, the assessment in  
17 your brief concerning why the benefit to a quota would  
18 go principally to domestic production and not to non-  
19 subject imports is based on an assumption about  
20 elasticity for non-subject imports that appears, on  
21 its face, a little bit low, maybe a lot low, given  
22 that the U.S. market is served by imports from a very  
23 large number of countries and that the product,  
24 itself, is fairly standardized. So, I'd ask and maybe  
25 Dr. Blecker is the right person, can you explain why

1 you chose that range and what the effect would be on  
2 your remedy analysis, if a higher range were used?

3 MR. BLECKER: Robert Blecker, Schagrin  
4 Associates. Thank you, Commissioner Aranoff. I've  
5 been waiting a long time for someone to ask me a  
6 question about elasticities, because I think there's  
7 been a tendency in analyses of these industries to  
8 just keep using the same elasticities without thinking  
9 about whether they're empirically valid. And if you  
10 look at some of the elasticities that are often  
11 asserted about supply, they're in the range of five to  
12 10. If you put that in a model, you get almost  
13 entirely quantity effects and virtually no price  
14 effects. I don't think that's realistic. We all  
15 agree here that the preponderance of the effects have  
16 been on the quantity side. But, there have also been  
17 effects on the price side. And any elasticity greater  
18 than one will give you more quantity effects than  
19 price effects. And the higher you push that, I think  
20 you get into an unrealistic area.

21 So, I'm trying to knock down the whole range  
22 of elasticity estimates. Relative to the staff's  
23 suggestions, I argue that the elasticity for supply  
24 for the domestic producers and Chinese products should  
25 be three to five, not five to 10. So, I agree with

1 the lower end of their range and not with the higher  
2 end.

3 For the non-subject imports, there are  
4 several considerations. One is simply the data of  
5 record. I think it was my third exhibit here at the  
6 hearing and it's also my third figure. If you look at  
7 the changes in the market share, the adjustments of  
8 the non-subject products are very, very small. So,  
9 you have this big push of Chinese imports, big decline  
10 in domestic supply, and very little effect. So,  
11 empirically, we have simply not seen that much  
12 movement in the non-subject imports. And then there  
13 are reasons for this. A number of those countries,  
14 who are significant suppliers, I have, I think,  
15 roughly on the order of 30 percent of imports, are  
16 under antidumping and countervailing duty orders. So,  
17 there's some restraint on those countries.

18 So, those are some reasons why I think any  
19 elasticity, I suggested a range of one to two, which  
20 will still give you some responsive non-subject  
21 imports, but I think it's going to be in a realistic  
22 range, compared to what we have actually observed.

23 COMMISSIONER ARANOFF: Okay, thank you. I'm  
24 happy to have given you the opportunity to talk about  
25 elasticity.

1           MR. SCHAGRIN: And that question had not  
2           been asked before or else I would have remembered Dr.  
3           Blecker answering it. So, that was definitely the  
4           first time.

5           COMMISSIONER ARANOFF: I'm going to turn my  
6           question around and get to kind of the same issue as a  
7           legal question, which is, one of the things that the  
8           Respondents argue is that if you have a remedy and you  
9           basically end up substituting non-subject for subject  
10          imports, then -- or, actually, let me take it a step  
11          back. If what we've seen happen in the past few years  
12          is, to some extent, that we've seen a substitution of  
13          subject for non-subject import market share, because  
14          the data do show, at least in the recent period, that  
15          non-subject market share has gone down, that that's  
16          not the kind of rapid increase in imports that Section  
17          421 was meant to address. Can you give a response to  
18          that argument?

19          MR. SCHAGRIN: Yes. First, Commissioner  
20          Aranoff, I would say that the discussion of Chinese  
21          imports substitution for non-subject imports, they  
22          actually just picked out a couple of countries and  
23          said, oh, look, here's the increase in imports from  
24          China, here's the decrease from Korea and Taiwan. But  
25          if you look in general, the amount of decline in total

1 non-subject imports is very, very small, as compared  
2 to the increase in Chinese imports, which is why, at  
3 least in 2004-2005, almost all, if not all of the  
4 increase in Chinese market share are at the expense of  
5 the domestic industry.

6 So, we don't think the starting premise is  
7 correct, that Chinese imports have come to the expense  
8 of non-subject imports. We think they have largely  
9 come at the expense of the domestic industry. And  
10 that's why we believe that that combined with the  
11 coverage of antidumping orders, that most of the  
12 relief, obviously not all of it, but that most of the  
13 relief will go to the domestic industry; that and the  
14 fact that these producers would have a shot at  
15 competing with non-subject imports. If non-subject  
16 imports are priced -- and you can look at the  
17 different average unit values -- you know, if they're  
18 priced at 10 percent below the domestic industry  
19 versus Chinese at 30 to 40 percent, then if the new  
20 competition is from non-subject imports, the domestic  
21 industry really has a panoply of choices that they  
22 just don't have when it comes to competing with the  
23 Chinese. So, it put the domestic industry in a just  
24 much better competitive position. And we believe that  
25 most of the benefits of the relief would go to the

1 domestic industry.

2 COMMISSIONER ARANOFF: Okay, I appreciate  
3 that. And I would just ask in your post-hearing, in  
4 looking at that, the data in Table 2-1 in the public  
5 report do show between, in 2004 and 2005, a 20  
6 percentage point drop in market share of non-subject  
7 imports, and if you could just comment on that.  
8 Thanks.

9 CHAIRMAN KOPLAN: Thank you, Commissioner.  
10 You will comment on that, right, Mr. Schagrín?

11 MR. SCHAGRIN: Yes, of course. I comment on  
12 everything I'm asked to comment about. No tirades and  
13 I always comment on everything I'm asked to comment  
14 about.

15 CHAIRMAN KOPLAN: I just wanted that for the  
16 record.

17 MR. SCHAGRIN: For the record, I will  
18 comment on the decrease in import volume not -- I do  
19 not believe import market share, but the decrease in  
20 import volume of 20 percent between interim 2004 and  
21 interim 2005 by non-subject imports. We'll comment on  
22 that in the post-hearing.

23 CHAIRMAN KOPLAN: Thanks. Let me start with  
24 you. Relative to other demand and supply factors, to  
25 what extent is Wheatland driving industry-wide sales

1 and profit trends, in your opinion?

2 MR. SCHAGRIN: Well, in my opinion, due to  
3 the Saw Hill acquisition, Wheatland has become the  
4 largest U.S. producer. I think it was in Mr. Dooner's  
5 testimony that he may have pointed out that even  
6 though they've just received a cost increase on steel  
7 and is the largest domestic producer, which we think  
8 would give them both pricing power and market power,  
9 that they have been unable to increase their prices  
10 currently, which is a real sign that market power that  
11 they really purchased, when they made a major  
12 acquisition, one, I guess, could characterize that,  
13 that it paid off handsomely before the surge in  
14 Chinese imports, that is now ceasing to pay off. And,  
15 in fact, they're now stuck, not because of market  
16 conditions, but because of imports with more capacity  
17 than they need, which is now really going to hurt  
18 them. And I think his testimony talking about how the  
19 change has occurred in their capacity utilization at  
20 various mills -- once again, there may be a little bit  
21 of a lag in how that shows up in their profitability -  
22 - it is really going to start harming their  
23 profitability in a major way.

24 CHAIRMAN KOPLAN: So, the answer is they're  
25 not?

1 MR. SCHAGRIN: I'm sorry?

2 CHAIRMAN KOPLAN: Is that a long way of  
3 saying they're not driving?

4 MR. SCHAGRIN: They're not -- no. To the  
5 extent -- obviously, as the largest producer, they're  
6 going to have the biggest effect on the total data.

7 CHAIRMAN KOPLAN: Okay.

8 MR. SCHAGRIN: And I should probably just  
9 address this in the post-hearing. But, I'm saying, I  
10 think that their market power, which they purchased in  
11 2002, helped them drive the numbers until, let's say,  
12 the latter part or early -- latter part of 2004, early  
13 part of 2005. Now, it's actually turning against  
14 them, because, as the largest U.S. producer and the  
15 one that's going to hurt the most, in terms of lost  
16 volume to China, what they spent to get large is now  
17 going to be a detriment to their business, whereas, I  
18 think, in 2002 to 2004, it was very positive for their  
19 business. I don't know if Mr. Dooner wants to comment  
20 on that at all of what I've stated.

21 MR. DOONER: Pete Dooner, again, with  
22 Wheatland. I'd just like to point out that it looked  
23 like a real good idea for us to buy Saw Hill in 2001  
24 and 2002. But, if you looked at it now and today,  
25 it's not -- it doesn't look like it was a great idea.

1 But, also, I'd point out that while we're talking  
2 about, I believe, 16-inch and down, Wheatland makes up  
3 through 6-5/8th inch diameter and, actually, the  
4 penetration of that size range that we compete in is  
5 probably in the high 60 percent. So, while we are the  
6 largest domestic producer, there's, you know, some  
7 other component out there, which is foreign pipe of  
8 China, of which is the largest, that I'd say is really  
9 driving things today.

10 CHAIRMAN KOPLAN: Thank you. And Mr.  
11 Schagrin, if you do want to expand in your post-  
12 hearing, I'd be happy to get that.

13 MR. SCHAGRIN: We'll do so, Mr. Chairman.

14 CHAIRMAN KOPLAN: Thanks. Let me stay with  
15 you, Mr. Schagrin. On page 12 of your pre-hearing,  
16 you state that "notwithstanding increased costs, some  
17 domestic producers have reduced their prices and  
18 rolled back announced price increases to help their  
19 customers compete with distributors of Chinese  
20 products." But, I note on pages 5-26 to 28 of our  
21 pre-hearing staff report, Petitioners provided usable  
22 information for the period January 2000 to June 2005,  
23 for 17 lost sales allegations, totaling about \$28.5  
24 million and involving 21,723 tons of circular-welded  
25 non-alloy steel pipe. Several producers provided some

1 information on lost sales and/or lost revenue  
2 allegations. However, the data were incomplete.

3 Can any of the domestic producers present  
4 today document lost sales and/or lost revenue for me,  
5 as part of the post-hearing submission? I realize the  
6 specifics of BPI; but, I'd just appreciate it, if you  
7 can tell me now whether such information can and will  
8 be provided.

9 MR. SCHAGRIN: At this point, obviously, the  
10 staff report isn't completed, I think, on a number of  
11 those lost sales allegations, which you said they're  
12 incomplete. Here --

13 CHAIRMAN KOPLAN: Do you want --

14 MR. SCHAGRIN: Well, we can and I would,  
15 also, say, you know, maybe I ought to arrange for the  
16 staff to meet with some of the purchasers in the back,  
17 because I heard, in their testimony, in their sworn  
18 testimony, I heard both. Master Halco, I believe,  
19 said that they have reduced their purchases of  
20 domestic product by one-third; a very huge purchaser.  
21 I'm sure that amongst the various companies here that  
22 sell to them, I don't know their ability to kind of  
23 nail down, gee, I lost this many tons, because Master  
24 Halco bought Chinese. But, maybe staff interviews --  
25 and, sure, I heard Mr. Thompson, the second largest

1 buyer say that he had shifted more purchases to  
2 Chinese. So -- and I've heard testimony on the record  
3 today, they're very sure of lost sales. Probably, if  
4 you looked at those companies total purchases, well in  
5 excess of the allegations made by the domestic  
6 industry. So, maybe what I can do with the staff is  
7 arrange for, you know, a conference call separately --  
8 not a conference call involving you, but that they  
9 could find some time to interview some of the  
10 purchaser witnesses, because that may be a better way  
11 to get at this than some of the data and lost sales  
12 allegations.

13 But, we'll go through that. We'll provide  
14 what we can for our post-hearing brief. And I know I  
15 will, at least, ask both Mr. Thompson and Mr. Miller,  
16 if they could find some time next week to talk to the  
17 staff about their shift in purchases and what drove  
18 those and any information they have about, you know,  
19 what the volume losses were for particular domestic  
20 mills that they've been purchasing from.

21 CHAIRMAN KOPLAN: Thank you. Mr. Perrine,  
22 if I could come back to you for a moment. Do you only  
23 make subject product in your mill or do you make 16-  
24 inch diameter product there, as well?

25 MR. PERRINE: We do not. This is Bill

1 Perrine. We only make one-inch pipe size and smaller.

2 CHAIRMAN KOPLAN: Okay, thank you. I don't  
3 believe I have any other questions and I'll turn to  
4 Vice Chairman Okun. I want to thank all of you for  
5 your -- not only your direct presentation, but your  
6 answers to our many questions this afternoon.

7 COMMISSIONER OKUN: Thank you, Mr. Chairman.  
8 Let me just follow-up on a couple of demand-related  
9 questions. Just one follow-up on the Hurricane  
10 Katrina question and I think it was you, Mr. Magno,  
11 who had given the response on that. And I'm just  
12 curious, one, when you have an announcement, I think  
13 it's too early to really understand all this, but that  
14 there's going to be estimates ranging from \$200  
15 billion being spent to rebuild the area down there,  
16 why there wouldn't be -- why the non-residential  
17 product that you have -- is it because it's not there  
18 now and it just isn't a good market down there? So,  
19 if they're rebuilding it, they're not going to be  
20 using the types of products that you sell? I'm just  
21 having a hard time having an understanding what your  
22 response was.

23 MR. MAGNO: We have something within our  
24 company called Wheatland watching and when we're out  
25 and about and when we're in airports or convention

1 centers or ballparks or things like that, we're  
2 searching for stencils and labels and everything.  
3 It's just a pastime of being in the pipe and tube  
4 business. My family drives them crazy. But that  
5 said, it kind of tells you where a significant part of  
6 our heavy standard pipe goes into, those types of  
7 applications.

8 Now, if they decide to knock down the  
9 Superdome and rebuild that, there will be some  
10 standard pipe in those applications; that's right.  
11 But, when they go into rebuild neighborhoods or stores  
12 or things like that, it's just that the construction  
13 doesn't -- it might suit more general steel  
14 applications; but pieces of black and galvanized steel  
15 pipe or things like that, it just doesn't fit those  
16 applications.

17 COMMISSIONER OKUN: I don't' think I saw in  
18 the staff report Buy America. In terms of Buy  
19 America, I have looked back at our -- I believe, it  
20 was our 2002 case, where, I think, we had said those  
21 types of policies that counted for 10 to 15 percent of  
22 sales in the U.S. market, is there any -- can  
23 producers comment on whether that would still be an  
24 accurate amount of your sales? I know one of the  
25 purchasers talked about -- Mr. Strittmatter, you had

1 talked about some of the Buy America. But, just in  
2 terms -- maybe, you all should talk about it, the  
3 purchasers, anything else you can say in terms of how  
4 much Buy America is a part of this market.

5 MR. MILLER: This is Tim Miller with Master  
6 Halco. For our business, I would say that the Buy  
7 American effect is around five percent, maybe; maybe  
8 stretching up to seven or eight percent. But, it  
9 certainly isn't much more than that. That's what we  
10 find in the fencing industry.

11 COMMISSIONER OKUN: And Mr. Strittmatter?

12 MR. STRITTMATTER: In the market of New York  
13 City, probably 60 percent now is un-American, not  
14 American product. Forty percent would be, in our  
15 area, American product.

16 COMMISSIONER OKUN: Mr. Thompson, could you  
17 comment on that?

18 MR. THOMPSON: Yes, ma'am. Keep in mind  
19 that our business is very similar to Tim Miller's  
20 business, not Donald Strittmatter's. Tim and I are  
21 direct competitors. His members bring through with  
22 me. I would say that the Buy American would not  
23 account for anymore than five to seven percent of our  
24 business.

25 COMMISSIONER OKUN: Okay. And Mr. Schagrin,

1 if there's anything that I've missed in terms of what  
2 we've looked up the last time around, if you could  
3 comment on it post-hearing.

4 MR. SCHAGRIN: We thought the question would  
5 be asked today, so we did our informal polling. It's  
6 not kind of like the Wheatland watch that Mark  
7 referred to. But when we know questions would come  
8 up, we kind of say, well, what do you guys think and,  
9 yesterday, it was five to 10 percent. So, maybe, it's  
10 gone down a little bit.

11 COMMISSIONER OKUN: Okay. And then just to  
12 demand more generally, now looking forward, if  
13 producers could tell me -- and I've heard a little bit  
14 the short term. We've talked about the seasonality of  
15 September. But, in looking at, if you've prepared  
16 business plans or you've prepared forecasts for your  
17 next two quarters, three quarters, four quarters,  
18 could you tell me what you think demand will be for  
19 your types of products? And I'll start up on the  
20 front row again. Mr. Boggs, you're reaching for the  
21 microphone.

22 MR. BOGGS: Yes, this is Will Boggs, Allied  
23 Tube. We've spent a lot of time looking at the non-  
24 residential market, like Wheatland does, and it's been  
25 down and you get little indications that it might be

1 improving a little bit. So, the tentativeness, we  
2 think, maybe things will gradually start to get a  
3 little bit better. As far as Katrina, itself, I mean,  
4 there might be some rebuilding there. But, I think as  
5 far as if you look at it from the whole country's  
6 perspective, in the order of magnitude, it's really  
7 probably not that significant over any period of time.  
8 So, I'd say, flat, hopefully a little bit up.

9 COMMISSIONER OKUN: Okay. Others? Mr.  
10 Perrine? Mr. Dooner? Mr. Magno?

11 MR. PERRINE: This is Bill Perrine from  
12 Sharon Tube. Our forecast looking forward are fairly  
13 flat to maybe just a slight decline. If there's a  
14 seasonality, and it's arguable whether there is or  
15 not, we tend to look at 52 first half of the year, 48  
16 second half of the year, as a pattern. That's not a  
17 lot of difference, though. So, on that basis, we  
18 expect just a slight trimming going forward.

19 COMMISSIONER OKUN: Okay. Mr. Magno?

20 MR. MAGNO: Mark Magno, Wheatland Tube. Our  
21 business is off significantly this year. So, in  
22 looking forward to -- our fiscal year starts October  
23 1. So, we're a couple of weeks away from that. We  
24 had looked at flat, based on the significantly reduced  
25 volume that we had in our current fiscal year that's

1 just ending, to maybe a slight increase. We don't  
2 know where imports are going to go, so that's how we  
3 see it.

4 COMMISSIONER OKUN: Okay.

5 MR. FINN: Don Finn.

6 COMMISSIONER OKUN: Yes, sorry.

7 MR. FINN: Don Finn, Western Tube. I agree  
8 with Mark. The market totally is flat, but the import  
9 tonnage seems to be rising. So, that's a real  
10 negative effect on all of us in this room.

11 COMMISSIONER OKUN: Mr. Barnes?

12 MR. BARNES: Scott Barnes of IPSCO. I think  
13 your question was the market in general demand and, in  
14 that case, we always seem to plan around what the  
15 general economy is doing. And it looks like the  
16 economy is beginning to slow a little bit where it had  
17 been, so probably flat to maybe slightly down for the  
18 next few months.

19 COMMISSIONER OKUN: Okay. Yes?

20 MR. LUX: Neal Lux with Maverick.

21 COMMISSIONER OKUN: Yes, Mr. Lux?

22 MR. LUX: I concur with other folks here,  
23 flat to slightly down going forward in the next two  
24 quarters.

25 COMMISSIONER OKUN: All right. Did I get

1 everyone there? Yes, okay. Good, well, thank you.  
2 And if there's anything in terms of what your business  
3 looks at or forecasts or anything else from them, the  
4 industry in general, that you could provide for post-  
5 hearing, I'd appreciate that, as consider the threat  
6 factors, as well.

7 Just, Mr. Blecker, I'm just going to return  
8 to remedy for a moment. I was going to ask the  
9 elasticity question, that I rarely do. Commissioner  
10 Aranoff asked it. But, I've heard your answer and the  
11 one thing, as I'm looking back here at this chart, we  
12 have -- is it 54 or 55 countries, who are shipping  
13 this product, and where all other sources, market  
14 share is still greater than the Chinese market share,  
15 even at the highest point of Chinese market share.  
16 I'm still having a hard time buying, you know, we  
17 somehow ought to think this was one where we should  
18 change elasticity on that run. So, tell me again why.

19 MR. BLECKER: Well, this actually gives me,  
20 also, a chance to follow-up on Mr. Schagrin's answer  
21 to, I think, it was Commissioner Aranoff. If you look  
22 at the most recent period since 2003, I think the best  
23 way to characterize it is that the non-subject imports  
24 have largely been tracking overall demand or apparent  
25 consumption in the domestic market. So, when apparent

1 consumption goes up from 2003 to 2004, non-subject  
2 imports go up. When apparent consumption goes down in  
3 the first-half of 2005, non-subject imports go down.

4 Notice, they've been tracking the domestic  
5 market, roughly speaking, was that Chinese imports  
6 have behaved disproportionately or even in the  
7 opposite direction to the domestic market. They go up  
8 far more than the other sources between 2003 and 2004  
9 and then they continue rising into 2005, while  
10 apparent consumption is actually shrinking. So,  
11 that's why I think that the primary driver of the non-  
12 subject imports is really just the overall market  
13 conditions. They don't seem to be the main player in  
14 regard to the Chinese imports.

15 Again, the market share comparison, I think,  
16 is quite telling; not the share of imports, which is  
17 what Commissioner Aranoff was referring to, but the  
18 share of apparent consumption. I think like 92 or 93  
19 percent of the increase in the Chinese share is  
20 accounted for by a decrease in the domestic share.  
21 There's almost no change in the non-subject share of  
22 the domestic market, as a whole, which is just another  
23 way of saying, they're tracking the domestic market.  
24 They're not responding much to what China is doing.  
25 And that's why I think that if the Chinese imports are

1 restricted back to the 2003 level, that the vast  
2 majority of that effect would be on the domestic  
3 products.

4 COMMISSIONER OKUN: Okay. Well, maybe, for  
5 post-hearing, if you could also just take a look at --  
6 if there are any other cases where we've made remedy  
7 recommendations where that would have been a similar  
8 argument and how those runs would look different, that  
9 would be helpful. I see my yellow light is on. But,  
10 did you get asked -- at this point of the day, I start  
11 forgetting what we've asked and what we haven't. I  
12 understand that the data that you used for your model  
13 inputs are based on the first-half of 2005 data. Did  
14 you get asked this question about that's not how we  
15 usually do. We would have used -- we'd wound up using  
16 2004's complete data.

17 MR. BLECKER: I can do that.

18 COMMISSIONER OKUN: Okay. That would be  
19 helpful, just -- you know, again, just because we've  
20 usually done it that way. I'd like to see it run that  
21 way. And I see my red light is on. Thank you.

22 CHAIRMAN KOPLAN: Thank you. Commissioner  
23 Hillman?

24 COMMISSIONER HILLMAN: Thank you, Mr.  
25 Chairman. Just a couple of follow-ups, I hope. One

1 to be very specific on the question that Commissioner  
2 Pearson asked you, because I will say, I share his  
3 sense that there's a disconnect in the data. And let  
4 me be very specific about it, so that you can address  
5 it in the post-hearing brief. As I look at our data,  
6 particularly the data in Table 3-8, which is showing  
7 financial data, including raw material costs, it would  
8 show an increase in the cost of raw materials, which  
9 is largely, as I understand it, steel, between 2004  
10 and first-half of 2005, an increase in raw material  
11 costs that you're showing of \$192 a ton. If I then  
12 turn over and look at what I see in the prices of hot-  
13 rolled during that same first-half of 2005, I see a  
14 decline of \$145. So, I'm trying to understand how  
15 you're telling me that your raw material costs went up  
16 by \$192, at the same time that hot-rolled prices,  
17 which, again, I understand to be the majority of your  
18 raw material costs, are showing a decline of 145. So,  
19 those numbers don't add for me. And I'm hearing that  
20 you keep inventories for a month-and-a-half. I'm not  
21 sure that it's a lag issue. So, I don't necessarily  
22 want an answer now, but I would ask in the post-  
23 hearing, if you could help me understand how that  
24 adds.

25 MR. SCHAGRIN: We will address it in the

1 post-hearing. I think that's the best way, because I  
2 really think it has to do with the time frame, not so  
3 much of when these gentlemen keep their inventory, not  
4 their inventory time frame, but I think it has a lot  
5 to do with the lead times of the steel mills. And so,  
6 I'll go through that.

7 COMMISSIONER HILLMAN: Okay. But --

8 MR. SCHAGRIN: And then --

9 COMMISSIONER HILLMAN: -- Vice Chairman Okun  
10 very clearly asked people how long do you hold the raw  
11 materials that you've purchased and, again, we're  
12 hearing answers in the six week to two-to-three-month  
13 time frame. So --

14 MR. SCHAGRIN: And that's absolutely true.

15 COMMISSIONER HILLMAN: -- I'm still not sure  
16 I'm understanding why I see this big increase in raw  
17 material costs, as you're reporting them to us, in  
18 first-half 2005, at the same time all of the other  
19 data is showing a very large decline in the prices of  
20 hot-rolled. And I understand some of this may also be  
21 zinc. Again, I'm happy to have --

22 MR. SCHAGRIN: Correct.

23 COMMISSIONER HILLMAN: -- you tell me what  
24 portion of the total product is actually galvanized at  
25 the end of the day and where zinc plays into this.

1 But, I'm not sure that zinc can possibly account for  
2 this large of a difference in the one going up and the  
3 other going down.

4 MR. SCHAGRIN: Zinc cannot -- although zinc  
5 prices have gone up 30, 40 -- while the percent on the  
6 steel was going down, zinc was going up. But, that  
7 can't account for it; you're absolutely right. So,  
8 we'll address it in our post-hearing brief.

9 COMMISSIONER HILLMAN: All right. I  
10 appreciate that. The next thing I wanted to get just  
11 your comment on this issue of the portion of the  
12 Chinese imports that are this grade A versus grade B.  
13 The Respondents have made the argument that the vast  
14 majority of everything coming in from China is grade  
15 A, the lower cost, lower priced product. I didn't  
16 know whether you all had a different take on what you  
17 see in the market, in terms of Chinese imports. Do  
18 you have a sense of what portion is A versus B?

19 MR. SCHAGRIN: I don't think we have a  
20 different take, but what's important to us is that,  
21 and this is -- on this, we are all certain, that in 95  
22 percent of the market applications, grade A and grade  
23 B are perfectly interchangeable products. Given that,  
24 I cannot imagine in a million years, when we think  
25 about substitution, fungibility, where it matters.

1 Producers, who make grade B say they compete with  
2 Chinese grade A everyday and the producers, who make  
3 grade A, would compete with domestic producers of  
4 grade B, as well as Chinese grade A and grade B  
5 everyday. So, I really think it goes to fungibility.  
6 We can't comment on what share of the Chinese. I  
7 believe whatever they say. But, in terms of market  
8 conditions, it just doesn't matter at all, if in 95  
9 percent of the applications, the goods are perfectly  
10 interchangeable. It's only in a few construction  
11 applications -- when I say "construction," I don't  
12 mean uses in HVAC systems, et cetera; I mean  
13 "construction," in terms of load bearing, not liquid  
14 or gas cans, because we're talking about tinsel  
15 strengths. Tinsel strengths don't tend to go to how  
16 much air and liquid gas -- you know, what goes through  
17 your sprinkler system here is at very, very low  
18 pressures. Most of the liquids carried are at -- or  
19 gasses are at low pressures of its standard pipe. You  
20 get to higher pressures, you have to go to API line  
21 pipe and that's natural gas and oil. When you go to  
22 the highest pressures, you go to seamless pipe and  
23 then on to stainless pipe. So, a difference between  
24 42,000 psi and 62,000 psi, between grade A and grade  
25 B, it only has to do when you're doing load bearing

1 and that's a very tiny portion of this market. I hope  
2 I answered your question.

3 COMMISSIONER HILLMAN: No, I understand. I  
4 just wanted to make sure I understood your sense of  
5 the imports. Okay.

6 MR. SCHAGRIN: Correct.

7 COMMISSIONER HILLMAN: If I, then, go to the  
8 issue of remedy in this case. You've proposed a  
9 quota. I understand that. I've spent a lot of time,  
10 more time than I want to recall negotiating quotas.  
11 So, I am very familiar with the ups and the downside  
12 of quotas. I want to make sure I understand the  
13 theory that you think we should be looking at. Is it  
14 to restore the domestic industry to the level of  
15 market share that it had before whatever you're  
16 deeming the surge to be? Is it to restore to a  
17 certain level of profitability? It is to restore it  
18 to a certain level of production? Shipments? I mean,  
19 how do you read the theory of what it means to remedy  
20 the domestic industry?

21 MR. SCHAGRIN: It comes from present  
22 conditions. I think whenever either this Commission  
23 of the administration is considering remedy, they  
24 ought to pay particular attention to the particular  
25 conditions in the industry, at the time the remedy is

1 being fashioned. I think as you heard today, there  
2 are four or five mills that are literally on the cusp  
3 of being shutdown, as the capacity utilization rates  
4 are so low that it has now become completely  
5 uneconomic to operate them. It is for that reason  
6 that we are looking for a remedy that will, first,  
7 restore production, shipments, and employment and with  
8 that, also take away the penalty that is being  
9 incurred on the cost of production for the low  
10 operating rates. Because that's increasingly becoming  
11 a major problem for this industry, is that, as I say,  
12 steel is going to fluctuate; but as capacity  
13 utilization continues to go down and mills continue to  
14 be operated at these low levels, the other conversion  
15 costs per ton are starting to skyrocket. They're up  
16 30 percent over this half year. They never had a  
17 major change in any of the other periods on this  
18 record. Never mind what this big jump in production.  
19 Shipments are up like 30 percent compared to the  
20 first-half last year. They're going to go up another  
21 15 or 20 or 25 percent in the third quarter. They're  
22 going to keep going up until at some point, mills get  
23 completely shut down. Other mills then to operate for  
24 a while at higher rates until more Chinese imports  
25 come in.

1                   So, that's why we're looking for this  
2                   remedy. It's -- that's the reason.

3                   COMMISSIONER HILLMAN: Okay. Now, and I've  
4                   heard your response to Commissioner Lane on the issue  
5                   of tariffs versus quotas. I think it's fair to say  
6                   that the Commission is generally loathe to suggest  
7                   quotas, because of all of the negatives on many  
8                   fronts, in terms of the quota rents going overseas,  
9                   the administrative reality difficulties, et cetera, et  
10                  cetera. I'm still struggling to understand why --  
11                  again, this is not a 201, where we have a restriction  
12                  on the level of tariff that we're talking about. So,  
13                  tell me again why a tariff is unacceptable. I mean, I  
14                  understand in certain context, when you're limited by  
15                  the statute to this 50 percent number, 50 percent  
16                  increase over the current tariff levels. You don't  
17                  have a limit here.

18                  MR. SCHAGRIN: If I thought we'd get 100  
19                  percent tariff, I'd be talking about tariffs. There's  
20                  really two things and part of it comes out of my --

21                  COMMISSIONER HILLMAN: Do you mean that?

22                  MR. SCHAGRIN: Yes, I mean it. Of course, I  
23                  mean it. I don't --

24                  COMMISSIONER HILLMAN: All right.

25                  MR. SCHAGRIN: I guess maybe you can't

1 always tell when I'm joking and when I'm not. If we  
2 get 100 percent tariff, we would take it and I'll have  
3 Dr. Blecker run the numbers using 100 percent tariff.  
4 One of the problems with tariffs is -- and this case  
5 is distinct from other cases before the Commission;  
6 we've taken a look at other cases before the  
7 Commission, both in the context of safeguards and 421s  
8 -- is the size of the margin of underselling is  
9 gigantic. The second thing is, starting from a  
10 relatively high base, \$600 per ton, average unit  
11 values on the Chinese product, a leading Chinese steel  
12 producer just cut prices in China for flat-rolled by  
13 10 percent, Baucham Steel. We'll put the article in  
14 our post-hearing. So, while our costs of steel are  
15 going up, in China, the costs are going down.

16 What concerns me is what if the Chinese, if  
17 there's a 50 percent tariff and the Chinese simply  
18 tell Customs, whether it's true or not, that the value  
19 of product isn't 600, it's 400. They've cut the  
20 tariff from \$300 to \$200 by just reducing the reported  
21 Custom's value. And today, Custom's, in terms of  
22 administerability, I would say they're better able to  
23 administer a quota system than check on any cheating  
24 on Custom's values for tariffs, because they are so  
25 over strained because of 9/11. The Custom Service

1 commercial enforcement is just getting hollowed out in  
2 a terrible way and I'd love to see the Congress do  
3 something to fix that. It's a very, very sad  
4 situation and very bad.

5 COMMISSIONER HILLMAN: Last question very  
6 quickly. What is demand in China for standard pipe  
7 going to be?

8 MR. SCHAGRIN: I can't tell you exactly.  
9 It's obviously high and it's increasing. But capacity  
10 additions, which were over 50 percent in the last  
11 three, four years, are like all steel products in  
12 China, capacity additions are far outstripping  
13 increase in demand in China. There's no question  
14 about that.

15 COMMISSIONER HILLMAN: All right. I  
16 appreciate those answers. Thank you, Mr. Chairman.

17 CHAIRMAN KOPLAN: Thank you, Commissioner.  
18 Commissioner Lane?

19 COMMISSIONER LANE: I'm going to ask the  
20 question that I was going to ask first, several hours  
21 ago, but I got distracted. And in the interest of  
22 time, since I want every company that is represented  
23 here today to answer this, it can be done post-  
24 hearing. I would like for you to describe your  
25 production of various types of pipe, both subject and

1 non-subject, in the same plants and on the same  
2 machinery. And in answering, could you, please,  
3 describe the ability to product both subject and non-  
4 subject pipe in the same plant and on the same  
5 machinery has increased, decreased, or stayed about  
6 the same in the last two to three years. And,  
7 finally, if you have the capability to produce various  
8 types of pipe in the same plants and on the same  
9 machinery, could you tell me whether the mix of  
10 production has changed toward or away from subject  
11 pipe in the last two or three years. Thank you.

12 MR. SCHAGRIN: We'll do that.

13 COMMISSIONER LANE: Mr. Chairman, that's all  
14 the questions I have.

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

17 COMMISSIONER PEARSON: Mr. Chairman, I'd  
18 just like to thank the panel. I think that you've now  
19 been here long enough that you've paid your debt to  
20 society. So, I'm ready to let you go free, with the  
21 exception of Counsel Schagrín, who still should be on  
22 probation, so that he can stay around for closing.

23 CHAIRMAN KOPLAN: Thank you.

24 MR. SCHAGRIN: I appreciate that. I'm ready  
25 for the shrimp questions now.

1                   CHAIRMAN KOPLAN: So am I. Thank you,  
2                   Commissioner Pearson. I do have a housekeeping  
3                   matter. Mr. Thompson, I think I've got this straight  
4                   now. I understand when we got your purchaser  
5                   questionnaire, only every other page was submitted and  
6                   that was probably a copying error. And I know that  
7                   Mr. Schagrin is aware of that and that has been  
8                   discussed prior to the hearing. And that's going to  
9                   be taken care of, right, Mr. Schagrin?

10                  MR. SCHAGRIN: That's correct. Mr.  
11                  Thompson, I have his office fax.

12                  CHAIRMAN KOPLAN: Right. But there's  
13                  another part of that. The page that I do have here,  
14                  okay, and that is this, if he can complete question 2-  
15                  1 that requests that -- and this is not -- I'm just  
16                  reading you what the question is, "report, as  
17                  indicated below, your firm's purchases, either  
18                  directly or through a sales agent or broker of  
19                  circular, welded, non-alloy steel pipe." I have the  
20                  page. He didn't answer the question. That would be  
21                  important for us and will that be done for the  
22                  purposes of the post-hearing?

23                  MR. SCHAGRIN: I will discuss that. He has  
24                  told me he will provide information, that he would  
25                  have to utilize estimates. And, of course, I said

1 estimates are better than nothing. And so, I will  
2 hope that he will be able to provide those estimates  
3 to the staff.

4 CHAIRMAN KOPLAN: Thank you. I appreciate  
5 that. And with that, I have nothing further. I turn  
6 to Vice Chairman Okun.

7 COMMISSIONER OKUN: Just one follow-up for  
8 the record on the Chinese demand question. Mr.  
9 Schagrin, I was going to -- will put to Respondent's  
10 counsel in a little bit here, the request to put any  
11 demands -- well, what am I trying to -- well, this can  
12 be a bad afternoon thing. Demand projections for  
13 China for this particular product, and I know it's  
14 hard to split out, but to the extent you can put  
15 anything on the record, because I will be asking  
16 Respondents to do that, as well. And then the other  
17 post-hearing question, which is, to the extent we've  
18 had a discussion about the workers that are laid off -  
19 - have been laid off, if you could just make it clear  
20 to me in the post-hearing, for the companies, if those  
21 -- where those workers were laid off. And I'm now  
22 talking about 2004, the period between December 2004  
23 and February 2005, the companies that have laid off  
24 workers, along with those companies. And I've heard  
25 at least one mentioned today where workers are shifted

1 to another part of their operation.

2 And with that, I do want to thank all the  
3 witnesses for all of your answers today. It's been  
4 very helpful. And, again, it's a lot of information.  
5 I will look forward to a very complete brief from Mr.  
6 Schagrin at the end of the day.

7 CHAIRMAN KOPLAN: Thank you, Vice Chairman.

8 MR. SCHAGRIN: At the end of today versus  
9 Wednesday?

10 (Laughter.)

11 COMMISSIONER OKUN: Yes, the end of today.

12 CHAIRMAN KOPLAN: Now that you've done that,  
13 it makes me feel better for what I'm about to do.  
14 Commissioner Aranoff, I don't want you to think  
15 there's anything personal in the fact that I skipped  
16 you just now. So, let me call on you. I'll even  
17 yield you the balance of my own time for any  
18 additional questions you've got.

19 MR. SCHAGRIN: Well, thank you, Mr.  
20 Chairman. I know you're just not used to having me  
21 around yet and that's okay. But, as a matter of fact,  
22 I don't have any further questions. I just want to  
23 thank the entire panel for your lengthy testimony  
24 today. It's very much appreciated.

25 CHAIRMAN KOPLAN: Now, let me try it this

1 way, does anyone else on the dais have any questions  
2 of this panel?

3 (No response.)

4 CHAIRMAN KOPLAN: I see that they do not.  
5 Ms. Mazur, does staff -- is it something I said, Ms.  
6 DeFilippo? Does staff have any questions of this  
7 panel?

8 MS. MAZUR: Mr. Chairman, staff has no  
9 questions.

10 CHAIRMAN KOPLAN: Okay. Thank you. Mr.  
11 Barringer, before the panel is released, do you have  
12 any questions of the panel? You are still here,  
13 aren't you, Mr. Barringer?

14 MR. BARRINGER: Yes.

15 CHAIRMAN KOPLAN: Okay. Well, then, I want  
16 to thank the panel for its all-day presentation. I  
17 appreciate those that came from out-of-town to be with  
18 us today. And you are released.

19 (Witnesses released.)

20 CHAIRMAN KOPLAN: We will now turn to  
21 Respondent's panel. Thank you all, very, very much  
22 for your participation today. We'll take a five-  
23 minute break.

24 (Whereupon, a brief recess was taken.)

25 MS. ABBOTT: Mr. Chairman, the second panel

1 in opposition to relief is seated and all members have  
2 been sworn.

3 CHAIRMAN KOPLAN: You may definitely  
4 proceed.

5 MR. BARRINGER: Thank you, very much, Mr.  
6 Chairman and members of the Commission. We are going  
7 to proceed today, I've got a few remarks I'm going to  
8 make at the beginning; Professor Prusa is then going  
9 to do a very, very fast Powerpoint presentation. And  
10 we will then have Jerry Coibion from Forrestaal, who  
11 is also accompanied by Fred Waite and Kim Young, his  
12 counsel, make a brief statement. I will also address  
13 at some point briefly the issue of remedy, although we  
14 didn't address it in our brief.

15 Unfortunately, I am not quite as passionate  
16 as Mr. Schagrín, so I probably won't have any tirades  
17 for you. But, his tirade today reminded me of the  
18 series of pipe cases we did many years ago and we had  
19 represented three or four pipe industries in a row.  
20 And even though I was absent from the hearing, Mr.  
21 Schagrín accused me of being the hub of the global  
22 conspiracy to put his clients out of business.  
23 Fortunately, that was nearly 20 years ago and they  
24 seem to be doing quite well.

25 CHAIRMAN KOPLAN: Did he really have hair

1 then?

2 MR. BARRINGER: No, he didn't.

3 (Laughter.)

4 MR. BARRINGER: He's aged very well. I  
5 would like to repeat what Mr. Schagrin did say about  
6 the staff report. I would obviously refer that you  
7 all lengthened out this process, but Congress didn't  
8 seem fit to give you very much time. And I think the  
9 staff really did a remarkable job in getting the  
10 information together and getting it compiled, in most  
11 cases, correctly.

12 I think you face a challenge in this case,  
13 because we have some very unusual circumstances. We  
14 have the attempt to get antidumping relief during the  
15 period of investigation, which always has a chilling  
16 effect on imports. We had the 201 relief, which  
17 affected China, but which was global. And we have  
18 what has probably been, as I'm sure all of you know,  
19 the most remarkable steel market that, at least that  
20 I've seen in my lifetime or at least my professional  
21 lifetime. And the volatility of the market, in  
22 particular, is what has led us to look a little more  
23 closely at what effects, during any given time period,  
24 the profitability and the performances of the  
25 industry. Hence, the lag issue, which Professor Prusa

1 will explain in some detail.

2           The second issue related to that, and I  
3 believe all of you, from the tone of your questions,  
4 recognize this, we have used some public data, press  
5 and pipe reports, Purchasing Magazine data, and so  
6 forth. We did that primarily because we didn't know  
7 until I think a day before the brief was due what was  
8 and what was not going to be public data and we were  
9 not really willing to speculate on that, as we did our  
10 work. Having said that, we have checked and all of  
11 the data that we have used tracks the data in the  
12 staff report virtually identically.

13           Third point, there were a number of  
14 questions on allocation today. There was no admission  
15 of allocation. I would call your attention to  
16 footnote one in Section 5-3 of the staff report, and  
17 you may want to look at what was said in that footnote  
18 and in the questionnaires it references. We can only  
19 make arguments based on the information we have. If  
20 there is a report, which says there has been  
21 allocation, and the staff report says there has been  
22 allocation, we assume there has been allocation. I  
23 call that to your attention.

24           I would also like to call your attention to  
25 the fact that notwithstanding the fact that there was

1 testimony today that they have not -- the industry has  
2 not been able to match price increases recently and  
3 that there is often a delay, that the latest hot-  
4 rolled increase was announced on August 11<sup>th</sup>. The  
5 increase was matched dollar for dollar by the biggest  
6 U.S. producer, Wheatland Tube, on 8/23. We will show  
7 you that; but, it's also on their website, in case you  
8 think that we fabricated that particular document.

9           Finally, Mr. Schagrin has stated the nobody  
10 decides to build the building or install a sprinkler  
11 system or, in essence, buy price based on price. Just  
12 because prices are going through the ceiling, they're  
13 going to install it anyway. I would just like to  
14 read from a Northwest Pipe press release, as recently  
15 as February 2005, where they say, "we, also, believe  
16 ordering was down, as our customers were to reduce  
17 inventories and possibly delayed purchases, as they  
18 assess potential future steel costs." We do not  
19 believe that it is at all credible to take a product,  
20 which has doubled in price in a very short period of  
21 time, and to say that the doubling of price is not  
22 going to affect volume.

23           With that, I will turn the presentation over  
24 to Professor Prusa.

25           MR. PRUSA: Thank you. Can you hear me on

1 this microphone?

2 CHAIRMAN KOPLAN: Yes, I can. Welcome back.

3 MR. PRUSA: Thank you, Commissioner. Good  
4 afternoon. My name is Tom Prusa. I'm a professor at  
5 Rutgers University and I'm here today to discuss the  
6 economics of the pipe market on behalf of Respondents.  
7 I'm a college professor, so actually I feel much more  
8 comfortable standing when I talk. The sitting down  
9 thing never happens in the classroom. I'm much more  
10 comfortable standing up.

11 Let's begin by looking at the question of  
12 material injury. Simply put, there's no basis for  
13 determination that the domestic industry is materially  
14 injured. The pipe industry is very healthy; yes, very  
15 healthy. This is an industry that reports that it has  
16 made positive operating profit in every period, every  
17 period, and this includes the most recent period,  
18 first-half 2005. As you can see on the chart, there's  
19 year-to-year variation on the amount of profits, but  
20 the industry is always profitable.

21 Interestingly, the only year when profits  
22 were somewhat below the traditionally very high levels  
23 is the year that when Chinese imports were close to  
24 their lowest point. In fact, they show on this next  
25 slide, the industry's current profitability at 6.7

1 percent is higher than its reported profitability over  
2 the first four years of the POI, 2000 to 2003.  
3 Moreover, the industry's profits are increasing over  
4 the last six months. How often do you hear cases  
5 where profits are rising at the end of the period?  
6 This is particularly noteworthy in this case, because  
7 the POI ended before this petition was filed. There's  
8 no filing effect here. Profits are rising and will  
9 continue to do so in the eminent future.

10 As I will discuss further in a few minutes,  
11 the rising profit trend is not a blip; rather, given  
12 what we know about the cost of hot-rolled steel and  
13 the current price of the pipe products, it's clear  
14 that the second half 2005 will produce even stronger  
15 profits than first-half 2005.

16 On the issue of profitability, there can be  
17 little room for disagreement. This is an industry  
18 that is doing great.

19 The Petitioners want the Commission to focus  
20 on the fact that the last four quarters have not  
21 matched the profits they reported in the first-half  
22 2004. Well, that is correct; it hardly has much to do  
23 with the question of injury. One shouldn't be careful  
24 not to read too much into 2004 results, particularly  
25 in the first-half. Here's why. Double-digit profit

1 margins have not been the norm for this industry.

2 To get a sense of the longer run picture of  
3 the U.S. pipe industry, I reviewed public data from  
4 earlier antidumping in Sunset cases and found out over  
5 the past 10 years, the industry has only reported a  
6 double-digit operating margin once, just once, first-  
7 half 2004. In all other years, profit margins are in  
8 the mid to high single digits. This is the industry  
9 norm. Core performance of 6.7 percent is just about  
10 the norm over the last decade; slightly better than  
11 some years, slightly worse than other years. And I  
12 point out that the Commission found a 5.0 percent  
13 margin in the prior dumping case significant in its  
14 decision to render a negative determination in that  
15 case, even though this profit level represented a  
16 decline from prior periods.

17 Of course, there are other measure of the  
18 industry's financial health. For instance, financial  
19 analysts often look at return on investment as an  
20 indicator. As shown here on this slide, the U.S. pipe  
21 industry has consistently imported a very, very strong  
22 ROI. As this Commission well knows, where does it  
23 have to contemplate making an injury determination for  
24 an industry with such consistently strong performance?

25 Now, let's turn to the question of whether

1 imports have adversely affected the domestic industry.  
2 There are very facets to this issue I would like to  
3 discuss; none of them favor the Petitioners. Let me  
4 begin with the fact that there's an attenuated  
5 competition between domestic industry and imports.  
6 First, there are distinct grades of pipe, grade A and  
7 the higher quality grade B. The majority of Chinese  
8 pipe sold in the U.S. is grade A. Only a single  
9 Chinese exporter shipped only grade B. On the U.S.  
10 side, on the other hand, all U.S. producers have the  
11 ability to product grade A and U.S. most produce  
12 primarily grade B.

13           Second, the lead time involved in buying  
14 from China is substantially longer than when buying  
15 from a domestic mill. According to public statements,  
16 domestic mills generally ship pipe 24 to 36 hours  
17 after receiving an order. By contrast, a company  
18 buying from China will have to wait six months or more  
19 for delivery; that's right, one day versus six months.  
20 For many buyers, this delivery time is all the  
21 difference that matters. If you need pipe for a  
22 project, a domestic pipe maker can ship tomorrow. For  
23 many customers, the fact that the Chinese might sell  
24 substitute product is irrelevant, because six months  
25 is too long to wait.

1           The next issue I want to talk about is price  
2 effects. Here, the Commission usually thinks about  
3 price depression or price suppression. There's no  
4 evidence of either. In this chart, I plotted domestic  
5 pipe prices in AUVs for Chinese pipe imports. Now,  
6 let me mention, as Mr. Barringer did earlier, I used  
7 public data from Purchasing Magazine and Preston Pipe  
8 and Tube. These are two reputable industry sources,  
9 whose pricing series track exactly the data the  
10 Commission collects. The big advantage over using the  
11 public data is that first of all, I had the data for  
12 longer than one week; and number two, it's on a  
13 monthly basis. When you look at this data and  
14 shipments on a quarterly basis that's collected by the  
15 Commission, you can see that the Preston Pipe and Tube  
16 data and the Purchasing Magazine data match up almost  
17 exactly with the pricing data collected by the  
18 Commission.

19           Now, as you can see here in this chart, all  
20 price series are trending up. Even more to the point,  
21 the greatest price increases have occurred over the  
22 last 18 months. Let me emphasize this point: over  
23 the exact time period, when the domestic industry  
24 claims imports from China have injured it, the  
25 domestic industry has rapidly raised its prices.

1           As seen on this next chart, the lack of  
2 temporal connection between import volume and domestic  
3 prices could not be clearer. During exactly the 18-  
4 month period that Chinese imports have increased or  
5 allegedly caused injury to the industry, domestic  
6 prices have gone up between 50 to 100 percent. Now,  
7 it's true that prices from many steel products have  
8 gone up over the past 18 months. In fact, in a few  
9 minutes, I'm going to emphasize that that fact, the  
10 fact that other steel prices have been rising rapidly  
11 is something the Commission must appreciate and  
12 incorporate into their analysis for this case.

13           What I want the Commission to focus on right  
14 now, however, is that over the last 18 months, pipe  
15 prices have risen by far more than other steel  
16 products. Let's look at the slide. Between January  
17 2004 and May 2005, the average pipe price rose by 74  
18 percent, just below a variety of other steel products:  
19 galvanized sheet, 53 percent; hot-rolled sheet, 53  
20 percent; cold-rolled sheet, 50 percent; merchant bar,  
21 32 percent. It's worth noting that the extent of  
22 trade protection across these other products varies  
23 considerably. Some of these steel products have ADCDV  
24 protection and some do not.

25           I provide this chart to provide another

1 metric for the Commission to analyze the ability of  
2 the domestic industry to raise prices. One metric is  
3 to compare current prices with the historical levels.  
4 From the prior slide, we see that those prices have  
5 been rising. Another metric compares the pipe  
6 industry's pricing power, as compared to other steel  
7 products. Both metrics lead to the same conclusion.  
8 This is the industry that has no trouble raising  
9 prices to cover increased costs.

10           The data make it clear that the domestic  
11 industry has been able to consistently raise its  
12 prices by large amounts over the entire POI and  
13 there's no reason to believe that these price  
14 increases are about to stop. To the contrary, on the  
15 screen, I projected a copy of a letter that Wheatland  
16 Tube recently sent to its customers. And this letter,  
17 dated August 25, 2005, Wheatland tells its customers  
18 it's raising its prices not by \$10 a ton, not by \$20 a  
19 ton, not by \$30 a ton, by \$60 a ton. Giving this  
20 pricing record and its recent announcement, there's  
21 absolutely no indication of price depression or  
22 suppression.

23           The next issue I'd like to turn to is the  
24 volume effect of imports. Given that the industry is  
25 making large profits and given that the industry is

1       seemingly able to raise prices by large amounts, the  
2       domestic industry's case appears to hinge on alleged  
3       buying effects.  However, imports have not decreased  
4       domestic shipments, nor have they decreased domestic  
5       production.

6                   Now before looking at domestic volume per  
7       se, let me review a few other related issues to the  
8       domestic volume question.  First, let's look at  
9       overall import volume.  As shown here, overall import  
10      trends are flat over the period.  The United States  
11      imported 1.2 million tons of pipe in 2000.  It  
12      imported 1.2 million tons of pipe in 2004.  And it's  
13      projected to import 1.2 million tons of pipe in 2005.  
14      I didn't make up the numbers.  It's exactly the same  
15      number at the beginning of the period and at the end  
16      of the period.  If you look at instead at the  
17      Petitioners' adjusted import level, where they propose  
18      throwing out Canadian imports, you, in fact, see that  
19      it's basically flat, also, but, in fact, decreasing.  
20      You can see overall imports are slightly down in 2005.  
21      Now the only real exception to this trend is the two  
22      years of the safeguard action.

23                   What this chart means, of course, is that  
24      Chinese imports have displaced other foreign  
25      suppliers, not domestic shipments.  As shown here in

1 this chart, 95 percent of the Chinese volume is  
2 accounted for by decreases from Korea and Taiwan.  
3 Thus, what we have here is United States buying pipe  
4 from one Asian country instead of another.

5 The second issue that bears consideration is  
6 the steel market's incredible volatility in 2004.  
7 Analysts agree that 2004 was the steel market's  
8 wildest ride in a generation, perhaps ever. Shown  
9 here are quotes from American Metal Market.  
10 Practically every article in 2004 talked about steel  
11 shortages. In May 2004, they state, "strong worldwide  
12 demand for steel is leaving little steel available to  
13 throw gaps in inventories." A few months later they  
14 state, "the problem, huge price increases, has been  
15 exacerbated by the current steel shortage." Now, the  
16 talk of steel shortage was not confined to  
17 journalists. Here, I quote two major pipe makers,  
18 Northwest Pipe, early 2004, "steel prices and  
19 availability continue to be issues for the tubular  
20 products group." January 2004, American Metal Markets  
21 quotes "Wheatland Tube, a shortage of raw materials  
22 has forced Wheatland Tube to scale back its  
23 production."

24 The third issue that bears consideration is  
25 the long delay between order and arrival of pipe from

1 China. While Petitioners dismiss this as unimportant,  
2 when one understands that ordering steel six months in  
3 advance, one's view of the Chinese imports changes  
4 dramatically. Now, in this slide I'm going to show  
5 why this matters. On this slide, I plot quarterly  
6 pipe shipments by domestic mills, okay, and I'm also  
7 going to plot quarterly orders of pipe from China. As  
8 you can see, the two series track each other very  
9 well. When the domestic shipments increased, so do  
10 shipment orders from China. When the domestic market  
11 turns down, so do orders from China. The point here  
12 is that Chinese import volumes are largely relational,  
13 rather than rapidly increasing. The actual import  
14 interests come later, but the orders are very  
15 consistent with what has happened in the market at the  
16 time the orders were made.

17 When you plot import arrival six months  
18 later, the picture of imports in the market is far  
19 murkier. I think, however, that once the Commission  
20 understands the timing issue involved in the market,  
21 the murkiness that was discussed this morning, the  
22 confusion will go away. There's only one exception to  
23 this tight relationship. That's the fourth quarter  
24 2004. I'm going to discuss this in a few slides, but  
25 this final blip is driven by decisions of domestic

1 producers, not importers. It's largely a function of  
2 statements made by domestic industry regarding the  
3 market's volatility.

4           With this as a backdrop, let's now answer  
5 the question, why are domestic shipments down. Reason  
6 number one, other pipe products are more profitable.  
7 Pipe producers are opting to shift production to even  
8 more profitable pipe, such as OCTG. Of course, the  
9 domestic industry rejects this notion earlier today.  
10 Here, on the other hand, I have public statements  
11 confirming it. Northwest Pipe, the first quarter  
12 2004, "we have allocated the steel originally planned  
13 for the tubular products division to other products  
14 and facilities." Maverick's 10K 2004, "we have chosen  
15 to reduce our sales in this market and focus on more  
16 profitability product lines." Why OCTG? Just take a  
17 look at OCTG margins, 21 percent, 24 percent. I don't  
18 blame domestic mills for shifting their emphasis to  
19 OCTG. If you can make seven percent on standard pipe,  
20 but 20 percent on OCTG, what would you do?

21           Reason number two, delays in purchases.  
22 With prices hovering at \$1,000 a ton, some buyers are  
23 surely delaying their pipe purchases. Given the  
24 highly volatile market prices, some purchasers might  
25 be waiting, hoping that waiting will result in lower

1 prices.

2 Reason number three, inventory liquidation.  
3 This is somewhat related to the previous point, many  
4 buyers are surely thinking that at these prices, let's  
5 run down our high cost inventory. Are these simply  
6 conjectures? I'm afraid not. Here's a quote from  
7 Brian Dunham, the chief executive officer of Northwest  
8 Pipe: "We, also, believe ordering was down, as our  
9 customers worked to reduce their own inventories and  
10 possibly delayed purchases at the assessed future  
11 potential steel cost."

12 Reason number four, raw material shortages -  
13 - raw material volatility, excuse me. What I heard  
14 this morning, this is really not an issue, there are  
15 public statements saying that it is. For example,  
16 here are quotes from Wheatland Tube. December 8,  
17 2004, late in 2004, "regrettably" -- the bottom line -  
18 - "regrettably, unprecedented and unrestrained  
19 increases from raw materials, as well as volatile  
20 supply, necessitate this price increase." Statements  
21 like this create the perception amongst steel buyers  
22 that there's uncertainty whether raw material is  
23 available. I think it's possible, in fact, more than  
24 possible that some buyers are scared by such  
25 statements.

1 Reason number five, price increases. Price  
2 affect demand. I know this is an absolutely  
3 astounding statement to many here, but actually is  
4 something that every student learns in ECO 101. It's  
5 called the law of demand. That's literally what it's  
6 called in the textbooks, the law of demand. And it  
7 states when price goes up, quantity demanded goes  
8 down. And in this case, prices haven't gone up by a  
9 little, they've gone up by a lot. When one looks at  
10 the data, it's clear that prices of domestic shipments  
11 are inversely related. In this chart, I graph year-  
12 to-year changes of the shipments and prices. And  
13 you're going to see that prices and shipment data move  
14 in the opposite direction. The blue bar is domestic  
15 shipments using ITC data -- that wasn't good. The  
16 black line here tracks year-to-year changes in pipe  
17 prices. What you see is that when prices are trending  
18 up, shipments trend down early in the period. When  
19 prices go down between 2003 and 2004, shipments go up.  
20 When prices skyrocket by 80 percent, volumes drop by  
21 28 percent. This last period is an excellent example  
22 of the law of demand.

23 Now, how big an impact do prices have on  
24 demand? To answer that question, we need to use  
25 something called the elasticity of demand. Loosely

1 said, the idea of elasticity is to get at how steep  
2 the demand curve is. In the staff report, the ITC  
3 estimates it's between -7.5 and -1. Now, that's  
4 basically gibberish to almost everybody. It's just  
5 numerical number. But, let's just get at what the ITC  
6 estimates, staff estimates, what those price  
7 elasticity numbers mean for this market over the last  
8 year. The average price in the first-half 2004 for  
9 pipe was \$700. The average price first-half 2005 is  
10 \$1,025, a 36 percent increase. On the other hand, as  
11 reported to the Commission, net sales have fallen by  
12 28 percent. So, your price elasticity tries to give  
13 you an idea how much volume change, as along the  
14 horizontal axis, which I labeled January 2004 to  
15 January 2005, could be explained by a 46 percent  
16 increase in price. This is just using the ITC staff  
17 estimates. The ITC elasticity estimates imply that  
18 the movements along the demand curve fully explain the  
19 fall in demand, fully explain the fall in demand.

20 Now, as a side note, let me mention here  
21 that the Petitioners' analysis ignores the ITC staff's  
22 elasticity. I think it came up in the questions this  
23 afternoon. Without any justification or proof, the  
24 Petitioners assume that the demand curve for pipe is a  
25 lot steeper than the ITC staff estimates are. Does

1 this matter? It sure does. Petitioners view that  
2 huge price increases have virtually no effect on  
3 demand. Now, let me, also, note as a side note,  
4 Petitioners did a similar trick in the 2002  
5 antidumping case. The ITC rejected their numbers  
6 before and I urge you to do so again.

7 Now, is there any evidence that the demand  
8 for pipe is falling? Well, the proof of economic  
9 theory can be found in real word occurrence. Let's  
10 look at a major consumer of pipe, the construction  
11 sector. The construction sector can buy at least some  
12 of this pipe from either domestic or foreign  
13 suppliers. As I mentioned about timing lags or, in  
14 some cases, Buy American provisions, the only supplier  
15 is domestic. But very broadly stated, let's suppose  
16 that both domestic and import suppliers are viable.  
17 Has pipe demand slowed because the construction sector  
18 has slowed? When I look at the construction sector  
19 data, I see an industry that is growing. So here  
20 charted, construction data from the Commerce  
21 Department between 2000 and 2005 -- I've doubled the  
22 2005 first six months to get the 2005 estimate -- and  
23 you can see that construction is essentially up.

24 So, it must be something more than just the  
25 construction market is slowing down. So, if it's not

1 construction, perhaps the domestic industry's  
2 explanation is that their decrease in shipments has  
3 occurred the same time import supply is growing up,  
4 lost sales allegations. To try and see if this  
5 allegation could be true, I created what I call steel  
6 pipe intensity. All it is, is I tried to measure how  
7 much pipe either domestic or foreign sourced is being  
8 used per unit of construction; that's all, how much  
9 domestic pipe, regardless of the source, is being used  
10 in construction. So in the numerator, that is the  
11 top, I have domestic and imports together. Now, if  
12 there's just lost sales going on here, this would be a  
13 one-to-one tradeoff here and this ratio is going to be  
14 constant. On the other hand, if what's happened is  
15 the construction sector is decreasing the amount of  
16 pipe they used per unit, we're going to see that this  
17 thing isn't constant. And, in fact, it's not  
18 constant. In fact, it dramatically falls over the  
19 period.

20 This chart is a visual picture that the pipe  
21 industry's view, you've heard today, that the  
22 construction demand per pipe is soft. Yes, it is  
23 soft. It appears to be that they're using less pipe,  
24 but not because of imports. Imports are in this  
25 calculation. This declining intensity suggests that

1 consumers are opting for alternative products, if such  
2 products are possible. What products might be  
3 possible substitute for pipe? I propose three here,  
4 but they're surely more. For instance, we discussed  
5 this morning wood fencing, plastic fencing. I'm sure  
6 there are a variety of other substitute products for  
7 standard pipe.

8 Let's look at three: PVC -- wide flange  
9 beams for certain structural applications, PVC for  
10 some low pressure water applications, and, in some  
11 cases, higher grade pipe. Consider a pipe buyer, who  
12 prefers standard pipe to PVC pipe -- you know, an  
13 irrigation supply company. You really refer to your  
14 standard pipe. But as this chart shows, the price  
15 increases from 2002, which is the black line for pipe  
16 and the red line for PVC -- so, they're basically the  
17 pipe -- the standard pipe and the PVC prices are  
18 increasing similarly until late 2003. And then look  
19 at the pricing gap that separates PVC from standard  
20 pipe. So, if you have some buyers, who are trying to  
21 make buying decisions, who preferred standard pipe  
22 earlier in the period, at this point, it's  
23 increasingly difficult to justify using standard pipe  
24 when PVC pipe is so much less expensive relative to  
25 standard pipe.

1           You see a similar trend here in wide flange  
2 beams, which could be substitutables for some of the  
3 standard pipe that was discussed earlier today in some  
4 light structural applications. And it's the same  
5 idea, you look at the trend in prices. The black line  
6 is pipe prices, the red line is wide flange beam.  
7 And, again, what you can see or what happens, as the  
8 period goes on, a gap opens up between standard pipe,  
9 right when the demand starts falling in another  
10 substitute product. And one thing that's interesting,  
11 giving the law of demand, is, here, I've overlaid  
12 actually demand -- the shipments of the wide flange  
13 and you can see that it hasn't fallen off like the  
14 standard pipe shipments have fallen off. And I think  
15 that's an indication that price has a lot to do with  
16 it. So, why do we discuss demand -- I'm sorry. So,  
17 this review has made it clear that the domestic  
18 industry's volume decline is about skyrocketing  
19 prices, not imports.

20           Another allegation here is that imports are  
21 responsible for the domestic industry's declining  
22 operating margin between the first half and second  
23 half of 2004. And the answer is, no, they're not.  
24 The margin trend reflects tiny differences between the  
25 date the hot-rolled steel import is purchased and the

1 date that the standard pipe is shipped to a buyer,  
2 okay. So, to understand, let's first recognize that  
3 pipe prices depend on the price of cold-rolled sheet -  
4 - of hot-rolled sheet, excuse me. When hot-rolled  
5 prices go up or down, pipe prices go up or down almost  
6 immediately. If you look over time, it's a strong  
7 correlation, over .9. Here's a chart. As you can  
8 see, the two price lines -- the red is pipe prices,  
9 the blue is hot-rolled -- follow each other fairly  
10 nicely. The only clear example of pipe prices not  
11 tracking hot-rolled prices is actually the first-half  
12 of 2005, at which time we see the domestic industry  
13 continue to push through pipe price increases, even  
14 though hot-rolled prices were falling.

15           Secondly, the Commission needs to recognize  
16 that pipe produced today uses hot-rolled steel  
17 produced three to six months earlier. This is not  
18 speculation of an academic economist. Here, I show a  
19 quote from Maverick Tube, stating exactly this point:  
20 "The steel component of the cost of our goods lags  
21 steel purchase prices by approximately four to six  
22 months." So, consider exactly what this means using a  
23 three-month lag. Hot-rolled purchased in January will  
24 be used in pipe that's actually shipped in April.  
25 Hot-rolled purchased in May will be used in pipe

1 shipped in August. Hot-rolled purchased in September  
2 will be used in pipe shipped in December.

3 So, I know a number of Commissioners have  
4 been at the ITC for many years and probably have heard  
5 a number of pipe cases, more than a number. But, it's  
6 possible those three- to six-month lag issues has  
7 never been raised. But, in fact, the timing issue is  
8 really not a serious issue when prices are stable.  
9 Let's look at 2001. The blue dotted line is the hot-  
10 rolled price through 2001. The red line is pipe  
11 prices. As you can see, both are very stable during  
12 this period. The yellow bars track what I call the  
13 price-cost margin, which is the price for the pipe  
14 minus the price they paid for the hot-rolled three  
15 months earlier. And you can see that the margin is  
16 very stable. It wouldn't surprise me for the 2002  
17 case, no one discussed this. It's not an issue when  
18 prices are stable.

19 Let's now look, on the other hand, when  
20 prices are highly volatile, as they've been over the  
21 last 18 months. Let's look at this picture here.  
22 What you see, again, in blue are hot-rolled prices,  
23 going up dramatically from under \$400 to over \$700, a  
24 nine-month period. Then, we see hot-rolled prices  
25 turn around and coming down. And you see prices

1 tracking up. And in yellow, again, I've overlaid  
2 simply the price-cost margin, which is the price you  
3 sold your pipe for in a given month, less the price  
4 for hot-rolled a few months earlier. And so what you  
5 see here is variation in the margin. This is driven  
6 entirely by the hot-rolled volatility. Look early in  
7 2004, the pipe industry's glory days, record profits.  
8 And what you see here is an extremely high gap between  
9 their price and their costs. And what you see is the  
10 margin in April is a function of April's sale price,  
11 but the price of hot-rolled back in January. Does  
12 that make a difference? Well, it does when hot-rolled  
13 prices are going up by \$50 a ton per month during this  
14 period.

15 Let's look forward now to the doom and gloom  
16 times of second half 2004. As you can see, the yellow  
17 lines are way lower. They're a lot lower the second  
18 half. But once again, this is a problem of volatile  
19 hot-rolled pricing. Hot-rolled prices turns around.  
20 For instance, look at November 2004, a relatively low  
21 gap between prices, okay. This is a function of the  
22 downturn in hot-rolled prices, which started to pull  
23 down the pipe price, but the raw material was  
24 purchased months earlier. And so, you get a price-  
25 cost lead.

1                   What does this mean in 2005? We'll talk  
2                   about threat in a few minutes. But, you can project  
3                   forward here once you understand this three- to six-  
4                   month lag issue. We know what hot-rolled prices are,  
5                   had been to 2005. We know that the flat-rolled  
6                   producers have announced a \$60 a ton increase in hot-  
7                   rolled prices. We, also, know galvanized -- excuse  
8                   me, pipe prices. So, we can track forward and it  
9                   looks like these margins are going up and it has a lot  
10                  to do with the fact that hot-rolled prices were  
11                  declining throughout early in the year and they're now  
12                  going to get the advantage of these high pipe prices.

13                  Now, once you adjust for the simple fact  
14                  that hot-rolled is bought several months before the  
15                  pipe is sold, the two periods over the entire period  
16                  where margins are a little bit lower is 2003 and  
17                  second half 2004, both downturns and reported  
18                  operating margins are consistent with this analysis.  
19                  You can see the downturn in the price-cost margin.

20                  So, if you look over -- along the horizon,  
21                  you can see that the price-cost margin tracks with  
22                  information the ITC has collected. And when you  
23                  overlay that with this volatile steel market that we  
24                  had in 2004, you get the sense that margins were being  
25                  driven by volatility. And this period in 2004 was

1       unprecedented. What I graphed here are the percentage  
2       change in hot-rolled prices since 1980. And you can  
3       see, typically, a big year of hot-rolled price  
4       increases would be 10 percent. And what we witnessed  
5       in 2004 were increases of over 80 percent. Nothing  
6       like this has been seen over the last 25 years and  
7       probably nothing like this has ever been seen in the  
8       history of the industry.

9               Now, the fact that margins are being  
10       squeezed by volatile steel markets is confirmed in  
11       numerous statements by pipe executives. Let's look at  
12       the statement by Brian Dunham, "all margins have been  
13       adversely affected because of declining steel costs in  
14       the first-half of the year." This is a really  
15       interesting statement. Take a second again and look  
16       at what he just said. His margins have been affected  
17       because his costs have gone down. Now, isn't that  
18       paradoxical? Well, it's not once you understand the  
19       fact that his price is being priced off hot-rolled  
20       today, but his hot-rolled was bought when it was  
21       higher a few months ago. This seems confusing, but  
22       it's not, when you understand the lag issue.

23               Here's a similar statement by Maverick Tube,  
24       "high replacement cost" -- this is made in second-  
25       quarter 2005 -- "will flow into cost of goods during

1 the first and second quarters of 2005." And what  
2 they're referring to is the high hot-rolled prices in  
3 2004 are flowing into their product in 2005. So,  
4 economics is often mumble jumble, confusing to all  
5 outsiders, often confusing to those of us, who are  
6 economists. But, the economics in this case are not.  
7 Simply taking a few minutes and think about the lag  
8 issue in light of the volatile hot-rolled market, you  
9 can understand the margin movement over the period.

10 Let's now look at the issue of threat of  
11 material injury. Here's data from U.S. import  
12 statistics. As compared to the second quarter 2005,  
13 imports from China are declining. In fact, just as  
14 the foreign producer questionnaires indicated, imports  
15 looked to be sharply down as the year progresses.  
16 FEMA's preliminary import figures for August indicate  
17 just 13,000 tons of pipe from China. And, again, let  
18 me emphasize here, this is not the effect of the  
19 filing of this case. The imports arriving from China  
20 in August were ordered in February.

21 Second, the industry continues to be able to  
22 raise prices. As I said before, it's not raising by  
23 prices by \$10 or \$15 a ton, but rather by \$60 a ton  
24 effective just last week. What does this mean for  
25 future profitability? I think the picture is pretty

1     rosy. We know hot-rolled prices have fallen for  
2     almost 12 straight months just until the September  
3     price increase. Given the inventory lag, however, the  
4     pipe industry already has purchased the hot-rolled  
5     that will be used in pipe sold over the next two to  
6     six months. Putting it all together, it's easy to see  
7     that margins are rising.

8             As discussed in more detail in the pre-  
9     hearing brief, we show how straightforward counting  
10    allows us to come very closely to approximate the  
11    margins reported by the industry. Using the same  
12    accounting, we estimate the industry will return to  
13    double-digit profits in the second half 2005. Total  
14    digit margins, I can imagine the Petitioners thinking  
15    this statement is absolutely absurd. However, I note  
16    here that the prediction is not just mine. It, also,  
17    comes from one of their own. On this slide, I quote  
18    Brian Dunham, CEO of Northwest Pipe, in an on-line  
19    conference, a global firm on the Internet, if you'd  
20    like to listen to it, he states, "by the end of the  
21    year, we expect average margins in the nine to 11  
22    percent range." This is hardly what I would call  
23    imminent threat of injury.

24             I thank you for your time.

25             MR. BARRINGER: Madam Secretary, do you know

1       how much time we have left?

2               MS. ABBOTT: Eighteen minutes left.

3               MR. BARRINGER: Okay, thank you. I'm going  
4       to briefly address the issue of remedy. We didn't  
5       address it in our pre-hearing brief for a number of  
6       reasons, one is that we didn't believe that there's  
7       any support for injury and that, in turn, doesn't  
8       require a remedy.

9               Second, given the absence of any discernible  
10       price or volume effect from subject imports, it's  
11       difficult to speculate on what problem any remedy is  
12       seeking to resolve; that is, what is the target.

13              Third, if the Commission were to make an  
14       affirmative determination and pose a remedy, the  
15       history of protection of this industry demonstrates  
16       that absent global protection, such as what's afforded  
17       by Section 201 relief, protection simply creates an  
18       opportunity for and benefits other exporters of  
19       subject merchandise and does not result in a net gain  
20       for the domestic industry. The third point is  
21       particularly important. The Section 201 relief did  
22       result in a modest overall decline in imports, because  
23       it applied to most import sources. However, as  
24       Petitioners know from having antidumping cases  
25       sequentially against source after source, the drop in

1 imports from one source is a result of protection  
2 usually leads to the emergence of another source to  
3 replace that source.

4 Section 421 is not intended to protect other  
5 exporters of standard pipe. In competition with  
6 China, it is intended to protect the domestic  
7 industry. Thus, there's a very real question as to  
8 whether any remedy will simply benefit other offshore  
9 sources of standard pipe at the expense of China's  
10 exporters, rather than benefit the domestic industry.

11 Against this background, we believe that any  
12 remedy is an exercise in futility and will not  
13 accomplish the statutory purposes. In fact, the  
14 statute requires the ITC to assess and report on the  
15 long- and short-term effects on the domestic industry  
16 of imposing and not imposing a trade remedy. By  
17 implication, the ITC must determine that the remedy  
18 imposed would place the domestic industry in a  
19 significantly improved position. Regardless of the  
20 injury determination, if the industry position is not  
21 improved by imposing the remedy, the statutory  
22 requirement that the remedy be necessary is not met.

23 It's equally important to note that the  
24 underlying purpose of Section 421 is to address market  
25 disruption. Market disruption, by it's very terms,

1 refers to a normal market situation, which has been  
2 disrupted by rapidly increasing imports and the remedy  
3 is intended to eliminate the disruption and return the  
4 market to its normal state. The norm, however, is not  
5 a market protected by import tariffs during 2000 and  
6 2003 or a market in which the chilling effect of an  
7 antidumping investigation has led to a decline in  
8 imports. Indeed, these events are, in and of  
9 themselves, market disruptions, albeit disruptions to  
10 benefit the domestic industry. As such, market  
11 disruption and the need for a remedy cannot be  
12 measured against the period in which the relevant  
13 market, itself, was disrupted by other factors.

14 Let me turn now to the specifics of remedy.  
15 First, there's clearly not a pricing problem for the  
16 industry that has been able to raise prices at will.  
17 It continues to be able to raise prices. If there is  
18 a problem for the industry and, of course, we don't  
19 believe there is, that problem is volume related and  
20 we believe that quotas are more appropriate than  
21 tariffs to deal with volume-related problems.

22 Second, the quota level proposed by  
23 Petitioners can, at best, be termed absurd. It  
24 ignores much higher levels of shipments that preceded  
25 the 201 relief and the attempt to impose antidumping

1 duties on imports. It ignores the effects of the  
2 antidumping proceeding and the 201 relief. It ignores  
3 the import volumes after the 201 relief, as well as  
4 before the 201 relief.

5           Given that the indicators of injury in this  
6 investigation are extraordinarily weak, relative to  
7 those that usually prevail when there is an  
8 affirmative determination, if the Commission makes an  
9 affirmative determination, the remedy imposed should  
10 be consistent with the injury to be addressed; that  
11 is, it should be minimal. In the event, as would  
12 appear to be more likely, that the basis of any  
13 affirmative determination is threat of injury, the  
14 Commission's remedy should reflect the fact that the  
15 remedy should have the limited purpose of preventing a  
16 further increase in import levels, which might injure  
17 the domestic industry at some point in the future.

18           Under these scenarios, the appropriate  
19 benchmark for any quota is the import volume during  
20 the last 12 months of the period of investigation,  
21 mainly 365,000 tons. The same logic indicates a  
22 minimal remedy to be appropriate, indicates a minimal  
23 remedy to be appropriate, also indicates that a  
24 shorter, rather than longer period is appropriate.  
25 The maximum should be three years. This logic, also,

1 argues for a provision to permit growth, which  
2 gradually eliminates the effects of the remedy on  
3 imports. Here, we would suggest five percent.

4 As required by the statute, the relief is to  
5 be imposed only to the extent in which such period as  
6 is necessary to prevent a remedy of the market  
7 disruption. The remedy being proposed by Petitioners  
8 goes far beyond that necessary to prevent a remedy  
9 that is, at best, a marginal case for market  
10 disruption. We would prefer that any remedy be  
11 consistent with the harm to be addressed.

12 With that, I would ask Jerry Coibion to take  
13 over.

14 MR. COIBION: Good afternoon, Mr. Chairman  
15 and members of the Commission. My name is Jerry  
16 Coibion and I'm here on behalf of MAN Forrestaal, an  
17 importer of pipe from China and other countries. I  
18 joined Forrestaal about a year ago, as a company  
19 product manager for pipe products. I have been in the  
20 pipe business for more than 35 years. I began my  
21 career in 1965 with LaBarge Pipe in St. Louis,  
22 Missouri. I spent 15 years with LaBarge, which is a  
23 very significant distributor of steel pipe. I was the  
24 general manager of the Houston operations before  
25 moving to Romar Pipe and Rail, a family-owned

1 distributor of large diameter pipe, also located in  
2 Houston. I was their general sales manager for 20  
3 years. I was responsible for everything at Romar,  
4 sales, marketing, purchasing. I joined Forrestaal  
5 Corporation in November 2004.

6 At first, all of my responsibilities  
7 included communicating and coordinating with our  
8 customers and suppliers on all the pipe we buy and  
9 sell. Our customers, mostly steel distributors, are  
10 located throughout the United States and our pipe and  
11 tube suppliers are located around the world. In the  
12 U.S. market, Forrestaal sales standard pipe, fenced  
13 pipe, line pipe, and OCTG, which is oil country  
14 tubular goods, basically any carbon steel pipe that  
15 the mortar might require.

16 Forrestaal is an international company with  
17 61 offices and representatives in 40 countries. So,  
18 we all sell pipe and tube products in many markets  
19 besides the United States. In that regard, I would  
20 note that the number of potential sources of steel  
21 pipe worldwide is large and diverse. It is fairly  
22 easy to ship sources as needed, simply because there  
23 are so many suppliers to choose from. We, at  
24 Forrestaal, in 2004, sourced pipe products from over  
25 30 mills in 16 countries, both for the U.S. customers

1 and for customers in other markets, such as Canada and  
2 the European Union.

3 Forrestaal has been marketing Chinese pipe  
4 for over 15 years. However, when President Bush  
5 imposed Section 201 tariffs in 2002 and 2003, many  
6 suppliers affected by the tariffs dropped out of the  
7 U.S. pipe market at that time, including China. We,  
8 also, were able to source Chinese pipe for the U.S.  
9 market when China was under investigation for dumping  
10 in 2000 and 2001. Both the Section 201 and dumping  
11 cases reduced the amount of Chinese pipe in the  
12 marketplace.

13 I saw in your Commission report that Chinese  
14 imports were approximately 268,000 tons in 2004. The  
15 domestic mills obviously are very concerned about this  
16 apparent increase from China. But for Forrestaal, our  
17 imports from China in 2004 were largely replacing  
18 other import sources. And in 2005, I would say that  
19 our purchases from China in the second half of the  
20 year were either steady or declined, in comparison  
21 with the first half of this year.

22 Currently, we see the pipe market firming in  
23 the United States. Prices are going up, in part  
24 because scrap prices are significantly higher and, of  
25 course, hot-rolled prices are rising again. When you

1 combined this with the fact that our customers'  
2 inventories are beginning to go down, we anticipate  
3 increased demand for pipe. Customers are already  
4 placing orders -- placing new orders for next year and  
5 we see demand growing. We are constantly speaking  
6 with our customers, trying to predict what the market  
7 is going to do, whether prices are going to continue  
8 to rise or the scrap and hot-rolled prices will be  
9 going up or coming back down.

10           The four- to six-month lead times for most  
11 overseas mills, including the Chinese, we try to  
12 anticipate what market conditions will be when our  
13 shipments arrive. This is extremely important to our  
14 customers, because Forrestaal's business is based on  
15 back-to-back orders; that is, when we receive an order  
16 from a distributor customer, we place our order with  
17 our supplier. Forrestaal does not take positions or  
18 sell on speculation, nor do we maintain any  
19 inventories. When the material arrives, it is  
20 delivered directly to our customers. Any inventories  
21 that we reported to the Commission were actually  
22 material that was in transit, either to China to the  
23 United States, or from the port to our U.S. Customers.

24           There are several things about this case  
25 that I can't -- that I find confusing. First, I don't

1 understand how line pipe can be included in this  
2 investigation of standard pipe. We, at Forrestaal,  
3 have read and discussed the description of the  
4 products that the Petitioners want to include in this  
5 case. It seems, too, also, they are trying to include  
6 any pipe that could potentially be used in a standard  
7 pipe application. We were surprised to see that the  
8 Petitioners went so far as to include API certified  
9 line pipe in their case, even though this is a higher  
10 volume, more specialized pipe. They even included  
11 pipe that is dual stenciled to ASTM and API  
12 certifications, but the pipe is intended for use as a  
13 standard pipe. However, the importers that we sell  
14 are supposed to know what the intended of use of the  
15 pipe is. The majority of our sales are distributors,  
16 when they sell the pipe to downstream customers -- I'm  
17 sorry. We simply cannot keep tabs on who the end user  
18 is and what the eventual application of the product  
19 is.

20           And what about our distributor customers.  
21 Are they going to be required to report back to us  
22 each time they sell pipe that we supply to them? This  
23 would be a nightmare for them, because they would have  
24 no segregate of their inventory, in order to know who  
25 to contact about which pipe. We think that the

1       Petitioners are simply trying make this as confusing  
2       and as difficult as possible.

3               I, also, don't understand how the  
4       Petitioners can claim that they are being hurt by  
5       imports from China. This industry is extremely  
6       profitable and EOW pipe prices are once again  
7       increasing. The hot-rolled coil market has dropped by  
8       \$300 a ton over the last six months. And EOW pipe  
9       producers have managed to hold their selling prices  
10      for the most part, with the exception of spot sales.

11             I was particularly struck by two things when  
12      I read the Commission's report. First, the operating  
13      margin for these companies in the first half of 2004  
14      was 17.1 percent and it is 11.6 percent for the full  
15      year. And second, their return on investment in 2004  
16      was 17.9 percent. With numbers like this, I can't  
17      believe that this case is even being considered. I  
18      thought that Petitioners had to prove that imports  
19      from China are increasing so much that they are  
20      causing financial harm to the industry. But from what  
21      I've seen, the domestic mills continue to raise their  
22      prices and last year was a record year for domestic  
23      producers, despite the Chinese imports. We, at  
24      Forrestaal believe that this case has no merit and  
25      simply should be dismissed.

1 I appreciate the opportunity to appear  
2 before you and I look forward to answering any of your  
3 questions the best I can. Thank you, very much.

4 MR. BARRINGER: That concludes our  
5 testimony. I hope we were under an hour and maybe we  
6 can all get home at a reasonable hour.

7 CHAIRMAN KOPLAN: Well, we do have a few  
8 questions, but, thank you. We'll be doing the  
9 questioning with Commissioner Pearson. Thanks.

10 COMMISSIONER PEARSON: Thank you, Mr.  
11 Chairman, and my thanks to this panel for your very  
12 interesting presentations and your extraordinary  
13 patience. It's good to have you here.

14 Let me begin, Mr. Coibion, with you. How  
15 closely integrated is the global marketplace for  
16 standard pipe? You affirm trades in that marketplace.  
17 Is it relatively liquid? Relatively -- you know, a  
18 lot of movement around the world from one country to  
19 another? Tell me a little more about it.

20 MR. COIBION: Yes. There's a lot of them  
21 that's been around the world for the standard pipe.  
22 I'm not so sure I totally understand your question.

23 COMMISSIONER PEARSON: Well, let me make it  
24 more specific. Do you have an estimate for the total  
25 amount of standard pipe moving in world trade?

1           MR. COIBION: I don't have that availability  
2 with me, but my company does and I can submit it to  
3 you in a brief.

4           COMMISSIONER PEARSON: Okay, because I'm  
5 asking just to try to understand what percentage of  
6 the world's total trade might be imported into the  
7 United States.

8           MR. COIBION: Once again, I do not have that  
9 available, but I can certainly supply that to you.

10          COMMISSIONER PEARSON: Would the United  
11 States be one of the larger countries, in terms of  
12 total demand for standard pipe, or are there other  
13 markets that are bigger, in terms of standard pipe?

14          MR. COIBION: The European market is very  
15 large in standard pipe. Obviously, the Chinese market  
16 is very large in standard pipe. So, yes, to answer  
17 your question, it is very well diversified.

18          COMMISSIONER PEARSON: Can you give some  
19 sense of what the normal price gap might be between an  
20 exporting country that is putting pipe onto the market  
21 and an importing country that's buying it? What does  
22 it take to get pipe to move from one place to another?

23          COMMISSIONER PEARSON: On the product that  
24 we ship out of China, it takes approximately six  
25 months for us to be able to place an order, to have it

1 arrive into the United States, and then it's disbursed  
2 to our customers at that point.

3 COMMISSIONER PEARSON: Right, but that sets  
4 a time gap. I had intended to ask about the price  
5 gab, price difference, you know, how many dollars per  
6 ton does it take to inspire pipe to move from one  
7 country to another.

8 MR. COIBION: Can I answer that by a  
9 percentage?

10 COMMISSIONER PEARSON: Sure.

11 MR. COIBION: If you'd like --

12 COMMISSIONER PEARSON: I know almost nothing  
13 about this, so whatever you can tell me --

14 MR. COIBION: If you would like, we will  
15 submit you numbers in a post-hearing brief. We will  
16 be glad to do that. In standard pipe and A53 grade A,  
17 that is what we would consider to be pretty much the  
18 bottom rung of steel product that the mills product.  
19 To go up to a standard A53 grade B, you're probably  
20 going to be talking approximately 10 percent above in  
21 cost. Beyond that, up to an API product, it's  
22 probably going to be an additional 10 percent, because  
23 of the different cost value added. The price premium  
24 for the imported product is going to be 15 to 20  
25 percent.

1 COMMISSIONER PEARSON: Okay.

2 MR. COIBION: But, we would have to be -- to  
3 sell Chinese product into the marketplace below  
4 domestic levels.

5 COMMISSIONER PEARSON: Is China one of the  
6 larger suppliers of standard price to the world  
7 market?

8 MR. COIBION: They are certainly becoming  
9 that, yes.

10 COMMISSIONER PEARSON: And the other large  
11 suppliers would be?

12 MR. COIBION: Turkey is a very large  
13 supplier. There are mills in South America that are  
14 very large suppliers and a number of European mills  
15 with large suppliers, also. Well, I probably  
16 shouldn't say this, but -- maybe I'd better say it in  
17 a post-hearing brief on our primary area is where we  
18 get product from, I'd be glad to do that.

19 COMMISSIONER PEARSON: Certainly, because I  
20 wouldn't want you to get into any proprietary  
21 information here.

22 MR. COIBION: Right.

23 COMMISSIONER PEARSON: I'm just trying  
24 understand better the global marketplace, because we  
25 learned a bunch earlier today about the U.S. market,

1 what's been going on here.

2 MR. COIBION: Well, I have to tell you  
3 truthfully, I'm learning this, too. As you know, I've  
4 only been with Forrestaal for a year. I've been in  
5 this business for 35 years. I have a tremendous  
6 knowledge in it from a distribution side, also. So,  
7 I'm learning some of the world markets, as I go.

8 COMMISSIONER PEARSON: Okay. You mentioned  
9 the complexities of having to maintain some end-use  
10 control over certain types of line pipe under the  
11 proposal put forward by Petitioners. Does your firm  
12 have any previous experience dealing with some type of  
13 end-use certification or any other methodology to  
14 direct product to specific uses?

15 MR. COIBION: No, we don't deal with any  
16 users at all. There have been a few cases to where  
17 we've had major corporations that would come to us.  
18 But, no, ours goes directly to distributors and then  
19 we really don't know where it goes from there.

20 COMMISSIONER PEARSON: Okay. So, no  
21 experience with a government policy providing  
22 direction or limitation of that sort?

23 MR. COIBION: No, sir.

24 COMMISSIONER PEARSON: I have some limited  
25 experience with end-use certificates involving wheat

1 and I can just advise that they complicate the market  
2 greatly and it was not obvious to me that a lot of  
3 value was added by them. Just for what it's worth, I  
4 just want you to know that I'm familiar with the  
5 concept. So when you mentioned it, I did understand  
6 what you were getting on to.

7           From your presentation, Professor Prusa, I  
8 got the impression that the increase in Canada's  
9 imports in interim 2005 relative to interim 2004 is  
10 explained to at least some degree by large orders  
11 being placed in late 2004 that then entered  
12 subsequently. Are you able, in any way, to quantify  
13 what portion of the increase in 2005 imports might  
14 have been due to the phenomena of panic buying or --  
15 maybe that's too strong a term -- but buying relating  
16 to concerns about supply availability?

17           MR. PRUSA: I don't have any -- yes, I  
18 couldn't tell you it's x thousand tons. But, if you  
19 look at the press statements by pipe producers at the  
20 time, including -- as we put up on the slide,  
21 including late into 2004, if I were a buyer and  
22 getting these announcements from the companies, they  
23 kept stating about volatility. So, again, the issue  
24 is, I know I need pipe at some point in the future in  
25 2005. From this latest statement from Wheatland, I

1 don't know -- so, I cannot quantify it, but it seems  
2 clear that buyers certainly, partly due to domestic  
3 mill statements, emphasizing volatility as they jacked  
4 up prices, even though according to this morning, they  
5 had the hot-rolled available to them, could the  
6 perception of the market that you're not going to be  
7 able to get the pipe reliably. So, I don't have a  
8 hard quantification figure, but it's surely part of  
9 what's going on and I think that's why you're seeing  
10 as the market is settling down, Chinese imports for  
11 second half 2005 ought to be going down.

12 MR. BARRINGER: Can I just add to that?  
13 There is other evidence, again, not in the specific  
14 quantities, but the reference is to inventory  
15 liquidation. So, as the market was going up, up, up,  
16 there was panic buying; and as the market then peaked  
17 and was going down, those inventories were being  
18 liquidated. And there is anecdotal evidence that  
19 that, in fact, was occurring and that they had over  
20 inventoried.

21 COMMISSIONER PEARSON: Okay. Just on this  
22 same point going back to Mr. Coibion, what was the  
23 mood of your U.S. customers in this period in the last  
24 half of 2004 regarding supply availability? Were you  
25 sensing anything different?

1                   MR. COIBION: Yes, I was. The second half  
2 of 2004, we noticed somewhat of a balking on their  
3 side, because their inventory levels were getting to  
4 the point to where they were extremely high. They  
5 still are, to a certain degree, extremely high.  
6 They're beginning to weed them down and that's why  
7 we're beginning to see new purchasing take place.  
8 But, they all bought at high numbers and they have a  
9 great deal of concern over these high cost inventories  
10 that they have. And that's not just where I live in  
11 the Gulf Coast; that's pretty much throughout the  
12 countries.

13                   COMMISSIONER PEARSON: Okay, thank you. My  
14 time has expired, Mr. Chairman.

15                   CHAIRMAN KOPLAN: Thank you, Commissioner  
16 Pearson. Commissioner Aranoff?

17                   COMMISSIONER ARANOFF: Thank you, Mr.  
18 Chairman. I'd like to go back to the issue that we  
19 were discussing with Petitioners earlier about the  
20 grade A versus grade B pipe. We heard -- I think we  
21 heard from some of the domestic witnesses earlier  
22 today that they see U.S. grade B pipe competing with  
23 Chinese grade A pipe. Can you comment at all on  
24 whether that happens, in what applications it may  
25 happen, and how widespread that is?

1                   MR. BARRINGER: What we know is, having  
2 surveyed out clients, that most of them are selling  
3 significantly more quantities of grade A to the United  
4 States than grade B. We know, second, that there's a  
5 significant price differential between grade A and  
6 grade B. As was just said here, grade A is kind of  
7 the bottom of the barrel.

8                   Now, of course, you can substitute grade B,  
9 which is not the bottom of the barrel, for grade A,  
10 which is the bottom of the barrel, okay. You can  
11 substitute a Mercedes for a Hugo. It has -- you know,  
12 could it be a fence post if it's grade A or grade B.  
13 It will take you from place A to place B whether it's  
14 a Mercedes or a Hugo. But, we believe that it's  
15 extraordinarily unlikely that one would substitute  
16 grade A for grade B given the price and the cost  
17 differentials and, in particular, that one would do it  
18 if the grade A were available. And as a result,  
19 again, we can't quantify it. The Commission hasn't  
20 collected hard and fast information on it. But, in a  
21 period where -- which Mr. Schagrin claims they were  
22 suffering a cost-price squeeze, I sure wouldn't be  
23 using my steel, my high-cost steel to make a lot of  
24 grade A -- grade A pipe or selling grade B pipe for  
25 grade A applications. It just would not make any

1 sense.

2 So, how you get information on that,  
3 frankly, I can't tell you. I think you'd have to go  
4 back to both Respondents and to the domestic industry  
5 and find out what the quantities are.

6 MR. PORTER: Commissioner? You asked for  
7 evidence.

8 COMMISSIONER ARANOFF: Please identify  
9 yourself for the record.

10 MR. PORTER: I'm sorry, I'm Daniel Porter,  
11 Wilkie Farr, for the Respondents. You asked for  
12 evidence and I'd like you to -- I point you to Exhibit  
13 2 of our brief. On the very first page of that  
14 exhibit is an announcement of a price increase by  
15 Wheatland Tube of \$60 a ton. You will note on the  
16 exhibit and that price increase, it's just for grade  
17 B. Commissioner Aranoff, if there was as much  
18 substitution as Mr. Schagrin indicated, how could they  
19 raise the price of just grade B by \$60 a ton? Up to  
20 now, it simply wouldn't allow it. So, I think this is  
21 evidence that there really isn't much substitution of  
22 grade A for grade B, because, otherwise, the low  
23 prices in grade A wouldn't permit the \$60 a ton  
24 increase for grade B.

25 MR. PRUSA: Commissioner?

1                   COMMISSIONER ARANOFF: I think you can turn  
2 that argument around and say -- Petitioners argued  
3 that they could only raise prices on grade B, because  
4 of the effect of low-priced imports from China in  
5 grade A. And they, also -- I think I heard them argue  
6 that there isn't that much of a market for grade B,  
7 because, as you say, you'd only use it where you have  
8 to use it and the only time you have to use it is in  
9 certain construction applications.

10                   MR. PRUSA: Let me just add one more thing.  
11 If you accept the premise that they're perfectly  
12 substitutable for almost all applications, I think the  
13 number that was thrown out was 95 percent of the  
14 applications, then I thought I heard someone say -- an  
15 industry witness say that it cost more than \$100 a ton  
16 to produce grade B. So, I've got a mill that's  
17 selling a perfectly substitutable product that he can  
18 produce on \$100 less, but he's, instead, choosing to  
19 produce it for \$100 more, even though the customer  
20 he's going to going to try and sell it to can use  
21 either product identical. Their own statements  
22 contradict the idea that these products are perfectly  
23 substitutable, as they stated this morning. It makes  
24 no sense for a domestic mill to pay \$100 to a few  
25 dollars more for grade B, if the customers didn't

1 perceive value difference.

2 COMMISSIONER ARANOFF: Well, let me clarify  
3 one thing about our record with you and this is part  
4 of where I was going with this. The price  
5 comparisons, the direct product price comparisons that  
6 we have in our staff report, which tend to show a  
7 decent amount of underselling, are we comparing apples  
8 to apples there or have we confused our grades?

9 MR. BARRINGER: Our view is that you're not  
10 comparing apples to apples here, that there is -- the  
11 Chinese product is weighted heavily towards the grade  
12 A, which is lower cost, lower price; the domestic  
13 product is weighted heavily towards the grade B, which  
14 is a higher priced, higher cost, higher quality  
15 product.

16 COMMISSIONER ARANOFF: I understand that.  
17 But in our specific ones where we identify a specific  
18 product and then compare them for underselling --

19 MR. BARRINGER: It does not say grade A or  
20 grade B.

21 COMMISSIONER ARANOFF: Right.

22 MR. BARRINGER: And we didn't choose those  
23 products, by the way.

24 COMMISSIONER ARANOFF: Our staff inform us  
25 that they have never heard of this grade A, grade B

1 argument before they saw your brief. And, obviously,  
2 we've done a lot of pipe cases around here. So, I  
3 guess I would ask you to work with the staff, so we  
4 can have comparisons in our -- you know, before we  
5 vote, that actually do compare apples to apples.

6 MR. BARRINGER: We are happy to do that. We  
7 were not aware of it either until we looked at the  
8 Wheatland Tube website, which definitely distinguished  
9 between the -- or applied the price increase just to  
10 the grade B product and then we started asking  
11 questions about it and beginning to wonder about it.

12 COMMISSIONER ARANOFF: Thanks. I appreciate  
13 that. I think, you know, because, obviously, what's  
14 in the staff report right now do tell us something  
15 about underselling that I think we would all like to  
16 know if those are accurate. So, I encourage you and  
17 Petitioners, as well, to work with the staff, to clear  
18 up anything that we may not know about this  
19 comparison.

20 MR. BARRINGER: We'll do our best,  
21 certainly.

22 COMMISSIONER ARANOFF: Thanks. All right.  
23 I, also, want to ask you a quick question about non-  
24 subject imports. And I guess I should have posed this  
25 question to Petitioners. I certainly encourage them

1 to answer in their post-hearing brief. But, is there  
2 anything that you can tell us about whether various  
3 non-subject supplier countries export principally  
4 grade A or grade B product to the United States?

5 MR. COIBION: I'm sorry, I still don't  
6 really understand your question. You're asking if  
7 there are countries that just quantify one or the  
8 other?

9 COMMISSIONER ARANOFF: Well, we've been told  
10 that most imports from China are grade A.

11 MR. COIBION: That's correct.

12 COMMISSIONER ARANOFF: There are other  
13 countries that are fairly substantial suppliers to the  
14 U.S. market. Do they supply mostly grade A, also, or  
15 a mix? That's the question.

16 MR. COIBION: Yes, it is mostly grade A in  
17 that same comparison, yes.

18 COMMISSIONER ARANOFF: Are there any  
19 countries that are competing with the domestic  
20 industry on grade B?

21 MR. BARRINGER: My guess is that there are  
22 some countries that are competing in the higher  
23 grades. But, yes, any of the countries that have the  
24 higher quality products have dropped out of the market  
25 over the last 10 years, to serve the top of the line.

1 But, I leave it to Jerry, but I would assume, for  
2 example, the Europeans are selling some grade B,  
3 Canada -- and Canada, definitely.

4 COMMISSIONER ARANOFF: Okay. I'll change  
5 subjects entirely now and squeeze in a question --  
6 well, maybe, I won't squeeze it in, because my time is  
7 almost up -- but having to do with the lag issue on  
8 hot-rolled purchases, Petitioners argued earlier today  
9 that your lag argument only works if there's a last  
10 and first out accounting method being used and I  
11 wanted to ask you to respond to that.

12 MR. BARRINGER: I'll try to respond. If  
13 there is a last in, first out accounting method, you  
14 don't need to take into account the lag.

15 COMMISSIONER ARANOFF: I'm sorry, I think it  
16 was --

17 MR. BARRINGER: It should -- it would be a  
18 FIFO.

19 COMMISSIONER ARANOFF: Yes.

20 MR. BARRINGER: Or a FIFO, first in, first  
21 out, or it could be an average cost accounting system.  
22 If you value inventory according to average cost, the  
23 effect would be slightly different. FIFO would  
24 probably be a little bit longer. Average cost would  
25 be a little bit shorter, in terms of the lag that you

1 would take into effect.

2 COMMISSIONER ARANOFF: My time is up, so  
3 unless one of my colleagues picks this up, I'll come  
4 back to it.

5 CHAIRMAN KOPLAN: Thank you, Commissioner.  
6 This discussion about the \$60 a ton increase that was  
7 announced, if I'm reading our staff report correctly,  
8 I think this is about the same time that average unit  
9 raw material cost raised from 402 a ton in the first  
10 half of 2004, to 585 a ton in the second half of 2004,  
11 to 670 a ton in the first half of 2005. So, between  
12 the second half of 2004 and the first half of 2005,  
13 there was a raw material price increase of \$85 a ton.  
14 So, that's 60 doesn't recoup all of that. Am I  
15 missing something?

16 MR. PRUSA: Yes, you are, because the price  
17 increase we just talked about is right now not back in  
18 the spring. There are other price increases in the  
19 spring that would capture that issue. Are you  
20 referring to what their price in the spring --

21 CHAIRMAN KOPLAN: Well, the 670 that I'm  
22 referring to is first half of 2005, up from 585 a ton  
23 in the last half of 2004, okay. What I'm trying to  
24 say is I'm hearing about this \$60 a ton increase.

25 MR. BARRINGER: Right.

1                   CHAIRMAN KOPLAN: There's been no discussion  
2 of what was going on during the same time with raw  
3 material prices.

4                   MR. BARRINGER: Yes. Nucor announced on  
5 August 11, I believe it was, I have the date here,  
6 August 11, announced a \$60 price increase.

7                   CHAIRMAN KOPLAN: I understand that.

8                   MR. BARRINGER: And on August 23<sup>rd</sup>, Wheatland  
9 Tube announced a \$60 price increase, okay. That  
10 period is not covered in your staff report. So, this  
11 is -- the purpose of that example is to say, they're  
12 continuing to be able to increase their prices, at  
13 least as much as the raw material prices are  
14 increasing.

15                   CHAIRMAN KOPLAN: I guess that's what I'm  
16 trying to get to with you, Mr. Barringer, and I  
17 appreciate what you're saying. What I'm trying to  
18 understand is how much of the raw material price  
19 increase that has taken place according to what I've  
20 read to you from the staff report, can you tell me how  
21 much of that was recouped before these latest  
22 increases that you're talking about in prices? I'm  
23 trying to see what the offset is here. There must be  
24 some offset.

25                   COMMISSIONER ARANOFF: Yes. Can we track

1 that for you? I mean, we have it here, but I'm not  
2 sure I can do it off the top of my head, because --

3 CHAIRMAN KOPLAN: Sure.

4 MR. BARRINGER: -- there's this series of --

5 CHAIRMAN KOPLAN: Do you want to do it post-  
6 hearing?

7 MR. BARRINGER: -- of prices increases, both  
8 on the hot-rolled side and on the pipe.

9 CHAIRMAN KOPLAN: Would you rather do it  
10 post-hearing?

11 MR. BARRINGER: Yes, I think that would be -  
12 -

13 CHAIRMAN KOPLAN: That would be great.

14 MR. BARRINGER: It certainly would be less  
15 confusing for you and for me.

16 CHAIRMAN KOPLAN: You understand what I'm  
17 trying to -- I'm just trying to see --

18 MR. BARRINGER: Yes.

19 CHAIRMAN KOPLAN: -- if any of it balances  
20 out.

21 MR. PRUSA: But, you do see in the charts  
22 that I projected that even though -- even accepting at  
23 face value that their cogs kept going up in the first  
24 half 2005, even though hot-rolled prices were going  
25 down, that might explain why we looked at the hot-

1 rolled versus the pipe price. There seems to be this  
2 widening gap in first half 2005, above the hot-rolled  
3 prices. It does appear to be that. If there's some -  
4 - the fact that hot-rolled prices, at least  
5 historically, looked to be about two-thirds of the  
6 industry's cost. If all of a sudden there are other  
7 cogs, they mentioned raw materials, zinc, increases  
8 that go beyond -- make hot-rolled slightly a lower  
9 fraction, that could explain why the gap between hot-  
10 rolled pricing and pipe pricing seems to have  
11 lightened in the first half of 2004, which would get  
12 at your question.

13 CHAIRMAN KOPLAN: I appreciate that. And I  
14 know when you were going through your charts, you did  
15 rely a lot on what was in our staff report, as sources  
16 for why the charts were used that you were using.  
17 What I'm referring to, for purposes of the post-  
18 hearing, is chapter three, page 12, and that's Table  
19 3-8. It actually starts on the prior page, but the  
20 raw material price increases that I'm referring to are  
21 on page 12. So, if you can just, not now, but as you  
22 respond post-hearing, just take into account what I'm  
23 looking at, that will be great. Thanks a lot.

24 Let me start with you, if I could, Mr.  
25 Barringer. Petitioners note on page one of their pre-

1 hearing brief that "import licensing records indicate  
2 that the volumes from China for July and August are  
3 sufficient to belie the foreign producer projections  
4 of reduced export volume for the second half of 2005."  
5 On page five, they state, "specifically, the license  
6 volume of subject imports for China for July and  
7 August totals 64,303 tons." If you add that total to  
8 Chinese imports for the first-half of 2005, totaling  
9 185,019 tons, according to our staff report at I, page  
10 27, Chinese imports for the first eight months of this  
11 year would total 249,322 tons. But, you state on  
12 pages 72 and 73 in your brief that "China's exports to  
13 the U.S. will decrease to 238,771 tons in 2005 from  
14 250,437 in 2004." However, it appears to me, based on  
15 these numbers, that licensed imports of subject pipe  
16 from China in the first eight months of this year have  
17 already exceeded your total estimate for 2005. In  
18 addition, data from Commerce shows an additional  
19 13,761 tons of licensed imports from China in  
20 September. How do you respond to the numbers I'm  
21 looking at?

22 MR. BARRINGER: I think there are a number  
23 of things in your -- our prediction really is based on  
24 export levels, rather than import levels. So, you  
25 start off at the beginning. You don't know what the

1 timing is on the water, when a precise order is going  
2 to be exported. So, you're going to have some fudge  
3 factor there no matter what.

4 Second, we believe that --

5 CHAIRMAN KOPLAN: Where you able to take  
6 that into account in responding, if you want to  
7 respond, to this post-hearing? Can you quantify for  
8 me the fudge factor, in other words?

9 MR. BARRINGER: We can attempt to do that,  
10 in an attempt to rationalize the export numbers with  
11 the import numbers. Second, the product that's  
12 defined is over inclusive, because of the dual-  
13 stenciling issue. That's a problem. But, third, I  
14 think that --

15 CHAIRMAN KOPLAN: On which of the products?

16 MR. BARRINGER: We don't know that, to be  
17 frank.

18 CHAIRMAN KOPLAN: Okay, that's fair.

19 MR. BARRINGER: We don't know that. And  
20 it's something we will attempt to find out. But, in  
21 the time we had, it's --

22 CHAIRMAN KOPLAN: I appreciate that.

23 MR. BARRINGER: We've been struggling to  
24 keep ahead or stay up. But, third, I think the  
25 important thing is that there will be a sharp drop in

1 imports, as indicated by the September figures. And  
2 we expect that with the adjustments, we can probably  
3 come up with a rational way of showing you how those  
4 numbers are correct.

5 CHAIRMAN KOPLAN: Thanks. I appreciate  
6 that. I'm going to stay with you for this next  
7 question. On page 74 of your pre-hearing brief, you  
8 state, "that Chinese exports are being sold to an  
9 increasing number of destination markets in U.S.-bound  
10 subject merchandise account for declining share of  
11 China exports. As compared with the beginning of the  
12 POI, China is exporting to a significantly larger  
13 number of countries and are selling a smaller share of  
14 its total exports to the U.S. Rather than threatening  
15 the U.S. market, Chinese pipe makers are increasingly  
16 looking to customers in other markets." However,  
17 Table 4-2 on page 4-3 of our pre-hearing staff report  
18 includes data reflecting Chinese exports to the U.S.  
19 and all other markets. In 2003, Chinese exports to  
20 the U.S. totaled 125,437 share of tons, or 55 percent  
21 of the total exports. In 2004, Chinese exports to the  
22 U.S. were 264,053 share of tons, more than double  
23 2003. It appears from that, to me, that Chinese  
24 exporters are much more focused on the U.S. market  
25 than in all other markets.

1 MR. PRUSA: Commissioner Koplan?

2 CHAIRMAN KOPLAN: How do you respond?

3 MR. PRUSA: Tom Prusa. If you look at -- we  
4 discuss it in the brief, the data that we use is from  
5 a different data source than what the Commission staff  
6 put together. The Commission staff used something  
7 called World Trade Atlas, I believe. And I think with  
8 the table in the brief that shows that the World Trade  
9 Atlas terribly under reports imports from all sources  
10 to the United States, considerably off. So, the World  
11 Trade Atlas is not tracking at all U.S. import  
12 statistics. The database that we used, what's called  
13 the Com Trade Database tracks almost exactly U.S.  
14 import statistics. So, given that Com Trade  
15 reproduces what the U.S. import statistics are, I  
16 believe that the Com Trade data, in terms of  
17 destination markets of Chinese pipe, is far more  
18 accurate than the World Atlas. The World Atlas is off  
19 by something -- I forgot the exact percentage, but  
20 something like 50 percent, 30 percent in a given year,  
21 in terms of how close they come to saying how much  
22 pipe that the United States buys. Com Trade is off by  
23 a few thousand tons. So, I believe that the World  
24 Atlas is an inferior database and Com Trade actually  
25 accurately tracks import statistics and that's what

1 our numbers are the correct one and the staff reports  
2 -- well, from a source --

3 CHAIRMAN KOPLAN: Have you discussed that  
4 with staff? Have you gotten together with them on  
5 this?

6 MR. PRUSA: I have not.

7 CHAIRMAN KOPLAN: Would you do that?

8 MR. PRUSA: You bet.

9 CHAIRMAN KOPLAN: Thank you, I appreciate.  
10 If you can reconcile that for me after discussion with  
11 staff, I would appreciate it. Thank you for your  
12 indulgence. Vice Chairman, if you would take over.

13 COMMISSIONER OKUN: Thank you, Mr. Chairman,  
14 and let me begin by joining my colleagues in welcoming  
15 all of you to the panel this late afternoon. I, very  
16 much, appreciate you being here and the testimony  
17 you've given thus far and your willingness to answer  
18 questions. And I've had a few cups of coffee, so I'm  
19 ready to go. You may not have that advantage, but I  
20 do.

21 Let me start, if I could, with you Professor  
22 Prusa, just to better understand your Exhibit 9. This  
23 all relates to the lag time issue, as well. But,  
24 obviously, you heard Mr. Schagrin earlier today that  
25 they had a number of issues that they will be

1 presenting in the post-hearing brief about the  
2 accuracy of that exhibit. And I note in looking over  
3 this with staff, there was some questions that I saw,  
4 including that not everybody, who provided -- not all  
5 producers, who provided assets data, were included in  
6 the chart and that in terms of the lag time, you know,  
7 there were varying responses on the lag time, so  
8 whether this three months is really an accurate or  
9 even a good proxy for doing it would be the two things  
10 that I would like you to address now. If you could  
11 start with that.

12 MR. PRUSA: If I left off, it was certain  
13 inadvertent. I don't know if somehow the data I was  
14 working with, in this kind of very compressed dynamic  
15 time while I was putting this stuff together, I  
16 somehow left out a company or two. I'm completely  
17 unaware of that, number one.

18 Number two, I agree with you completely.  
19 One thing that's very interesting, if you look at  
20 that, is the considerable differences across firms in  
21 what -- you know, this, again -- I would say this is a  
22 back-of-the-envelope, trying to get out how long  
23 between the hot-rolled and the pipe they have in-  
24 house, how long ago was the current pipe -- the pipe  
25 that's currently being bought, how long before it

1 would really be sold. It's amazing the variance  
2 across firms and I think that gets a little bit at to  
3 how you get that some firms report that they can price  
4 almost immediately inventories off the hot-rolled  
5 price, and other firms seem to really struggle. I  
6 think you might look at that and see how performance  
7 of these firms really varies depending upon lags.

8           The thing I will say, though, that if you  
9 look at public statements of company that we have  
10 public statements for, their public statements  
11 correspond very closely to the number I came up in  
12 that table. And number two, companies that are  
13 reported in their questionnaires relative questions,  
14 it also matches up with what I came up. So, I  
15 actually think -- again, if you want to tell me that  
16 the three to six months is, if you look at the bottom,  
17 kind of an industry average, if you had strong opinion  
18 that you think it's four months, I'm not going to  
19 argue with you. I think it's ludicrous to think that  
20 --

21           COMMISSIONER OKUN: It seems like I thought  
22 I heard a lot less, but maybe not. But, again --

23           MR. PRUSA: Well, no, let me follow-up.  
24 They were describing, I think in terms of the  
25 questions, if you actually go back to the transcript,

1 they were responding, it seemed to me, they were  
2 saying that something like one-and-a-half, six weeks,  
3 things like that, they were discussing their hot-  
4 rolled inventory. They're not taking into account --  
5 at least my understanding of the way they were  
6 describing was they were talking about inventory of  
7 unfinished, the hot. They didn't seem to talk, oh,  
8 yes, we, also, happen to have another four weeks of  
9 pipe in stock. You need to take both into account, to  
10 know that where I'm buying hot-rolled today, how much  
11 before it actually is the pipe that's being sold.  
12 You'd think you would work through all of your pipe  
13 inventory, of the hot-rolled you already have in  
14 stock, and now the hot-rolled is being used. So, I  
15 think they were answering to you how much hot  
16 inventory. And, again, if you look at the numbers in  
17 that table, it actually matches up the hot numbers, to  
18 me, very low.

19 COMMISSIONER OKUN: Okay.

20 MR. MCCULLOUGH: Commissioner, real quick.  
21 I'd point out actually that the -- I mean, the number  
22 of the producers that I know, Roger said on average of  
23 60 days. But, I would note that Wheatland did say  
24 their inventory was 90 to 120 days. Now, I know that  
25 the gentleman from Maverick said his inventory was

1 about a month. But, obviously, you saw their own 10K  
2 says it more like four to six months. If you, also,  
3 look at the public record, if you look at Northwest  
4 Pipe, you can infer from what their saying in their  
5 second-quarter results, that their inventory lag is  
6 somewhere in the range of three to five months, as  
7 well.

8 COMMISSIONER OKUN: Of course, the Northwest  
9 Pipe gentleman, who is quoted extensively in your  
10 slides, is not here. There are other people, who are  
11 producers, so I am trying to -- I understand the  
12 context of what he is saying, which is a public  
13 statement, and, obviously, information on the record  
14 with what we heard today and try to understand it.  
15 And I know, I think Mr. Barringer, you had started to  
16 respond, as well, to an earlier question about the  
17 importance of the FIFO, LIFO on this analysis, as  
18 well. I don't know if there's anything else you  
19 wanted to add on that with regard to this issue.

20 MR. PRUSA: I wanted to add that I believe  
21 --

22 COMMISSIONER OKUN: Okay.

23 MR. PRUSA: -- I believe, although I don't  
24 have all the exhibits sort of handy, I believe if you  
25 look at that one, you will see that the hot-rolled

1 lagged quarter does match up incredibly well with the  
2 cog trends -- cogs trend, raw material cogs trend.  
3 So, again, I take that as verification that -- you  
4 know, this idea that there's absolutely no difference  
5 -- I'm impressed if there's absolutely no difference  
6 between the ability to buy the hot-rolled and they can  
7 put in the pipe and get the pipe out of the factory  
8 immediately. That's an impressive operation. I'm  
9 actually a little bit surprised, to tell you the  
10 truth, how controversial the idea is, is that you buy  
11 hot-rolled and then you produce pipe and there's just  
12 a little bit of a lag. I wouldn't consider three  
13 months such a dramatic -- maybe, I surprised today to  
14 hear that people find that an outlandish statement,  
15 myself. Again, that's actually consistent with the  
16 trends in cogs. The trend in cogs match up the hot-  
17 rolled trend very closely.

18 COMMISSIONER OKUN: Okay. And this next  
19 question, I'm not sure which of you will want to take  
20 it, but if the Commission were to reject the idea that  
21 we should look at lags, as we did in one of our  
22 earlier case, and, again, this is just a hypothetical,  
23 how does your argument change? How does your case  
24 change?

25 MR. BARRINGER: I don't know if our case

1 changes at all. I mean, I think the profitability has  
2 been very good. I think what happens is that it makes  
3 what is going to happen in the second half of 2005  
4 more speculative, okay, because what we don't know, if  
5 we don't have the lag, is we can't predict what the  
6 cogs are going to be in the second half of 2005. And  
7 if we can't predict what the cogs are in the second  
8 half of 2005, we have a pretty good idea where the  
9 prices are going, but it just becomes difficult to --  
10 it weakens the validity of our projections.

11 COMMISSIONER OKUN: That's appreciative. Do  
12 you want to add something?

13 MR. PRUSA: Well, I'd be a little big  
14 surprised, if you ignore lags, again, it seems now  
15 that you're ignoring public statements from these  
16 companies that they have three- to six-month lags  
17 between their input purchases working their way  
18 through the system. It's a little bit surprising that  
19 -- you, basically, would be rejecting this notion  
20 that, again, is replicated in the data that you're  
21 referring to. Again, it's a BPI exhibit, but it's  
22 clear that there's lags and how much different firms  
23 have. I would certainly agree with you that some  
24 firms tend to be leaner, in terms of the lag length,  
25 than others. But on the average, at the bottom line

1 table, it was about three months.

2 COMMISSIONER OKUN: Okay. Well, for post-  
3 hearing, I think the one thing that I felt like I  
4 heard is that there is variance and that it matters.  
5 It depends on what the market is, how quickly you pass  
6 this on. So, maybe as part of your post-hearing  
7 argument, to look at that, as well, I would appreciate  
8 that.

9 Now, let me go to the issue about the volume  
10 of Chinese product in the market and vis-a-vis  
11 apparent consumption. One of the things that we  
12 discussed this morning, and I wanted to go back to on,  
13 is this idea of whether these producers were switching  
14 into higher value products. And we've all been  
15 talking about this chart -- I lost, which I think was  
16 2-8 or 3-8 -- which shows the production in those  
17 various categories of OCTG and that you do see -- some  
18 of them went to OCTG, but it certainly doesn't account  
19 for the volume lost, and I think that was Petitioners'  
20 argument this morning. And I think looking at it, I  
21 see that, as well. I mean, there's a lot of volume  
22 that didn't go elsewhere that they lost. So, help me  
23 with that.

24 And help me with the second part of that  
25 argument, which I think is, you know, I see your

1 charts and I can go to those specifically in a minute,  
2 but my light is going to go on, so it would be a few  
3 minutes, but apparently consumption, you looked at  
4 those figures, look at what domestic shipments did,  
5 but the Chinese did not go out of the market. And so,  
6 help me out on the argument that it's -- you know,  
7 high price is driving demand for U.S. product down,  
8 but not high prices for Chinese or increasing prices,  
9 which they had as well, driving demand down for  
10 Chinese product. And I'll come back to you, but give  
11 me a brief statement first, Mr. McCullough.

12 MR. MCCULLOUGH: Real, quick Matt  
13 McCullough, Wilkie Farr. I just want to address the  
14 first part of your question on product shifting.  
15 They're very two different issues there. I don't want  
16 to get too focused in on OCTG. I know Mr. Schagrin  
17 made the point that only Maverick and IPSCO seem to  
18 make OCTG. That's one product where there are some  
19 pretty hefty product margins. You see that line pipe  
20 production was also up. I suspect a broader group of  
21 these producers and the broader industry makes more  
22 line pipe. I would point out that Mr. Schagrin  
23 withdrew a line pipe petitioner earlier this year. I  
24 suspect probably because they were making too much  
25 money.

1           In addition to that, you have to look at all  
2 these product lines and they make some products on the  
3 same equipment, but they, also, have other equipment.  
4 Then, you have to consider raw material supply and  
5 you've got to start thinking about allocation  
6 decisions. A lot of these producers are also conduit  
7 makers and I think the record suggests, and I think we  
8 can show publicly, as well, that the conduit business  
9 is a good business and you've got to decide where  
10 you're going to move your steel and on what product  
11 line.

12           COMMISSIONER OKUN: Okay. Well, if my  
13 colleagues don't get back to it, I'll come back and  
14 get some more specifics. And now that I see it's  
15 Table 3-2 that I'm referring to. Thank you, Mr.  
16 Chairman.

17           CHAIRMAN KOPLAN: Thank you. Commissioner  
18 Hillman?

19           COMMISSIONER HILLMAN: Thank you. And I  
20 would also join my colleagues in thanking all of you  
21 and welcoming you here this evening. I might start,  
22 Mr. Barringer and Mr. Coibion, just with an offer,  
23 given that the time allocated to your panel was 30  
24 minutes less than that allocated to Petitioners'  
25 panel, if there was anything that you would have

1 wanted to have said in the form of an affirmative  
2 presentation that you were not able to do, given the  
3 time constraints, I would invite you to do so now.

4 MR. BARRINGER: We appreciate the offer, but  
5 I think we pretty much covered what we wanted. We  
6 wanted to cover basically the staff report and some  
7 stuff outside of that. The import community in this  
8 particular area is not all that useful, because  
9 they're selling almost in a different market than they  
10 were selling to end users and they, frankly, don't  
11 know all that much about the health of the domestic  
12 industry. So, we felt satisfied with our time and we  
13 appreciate your offer, however.

14 COMMISSIONER HILLMAN: Okay, thank you. If  
15 I can go to the issue of trying to understand the  
16 imports. And this, again, I hate to go back  
17 constantly to this issue of the A and the B grades.  
18 But, I just want to make sure I'm really capturing the  
19 sense of the argument. And I guess perhaps, Mr.  
20 Coibion, maybe you can help me out on the issue of the  
21 end uses of A versus B pipe, just to make sure I  
22 understand, from your sense of it, where one uses A  
23 grade pipe and where one uses B grade pipe and the  
24 sort of relative percentages in that area.

25 MR. COIBION: I will certainly try. On the

1 grade A material, it is -- like I said, it is used --  
2 it's an entry-level pipe that is used for different  
3 construction type applications, whether it be fencing  
4 grades, whether it be -- it could possibly be used for  
5 structural supports of some sort.

6 COMMISSIONER HILLMAN: Sprinkler?

7 MR. COIBION: It's possible to be used for  
8 sprinkler systems, yes. It has been in the past, I  
9 know. I think most of the sprinkler companies now try  
10 to engineer a little bit higher than that, only for --  
11 and especially when they get into large construction  
12 buildings. They try to go something with a little bit  
13 more of a pressure involved in it, to where they make  
14 sure they don't have a failure. And a grade A pipe  
15 does not really -- is not really a pressurized  
16 application pipe.

17 COMMISSIONER HILLMAN: Okay. So of the end  
18 use demand, how much of it is for grade A and how much  
19 of it is for grade B? I'm trying to understand given  
20 what you've just said, it sounds a lot is on the A  
21 side. But, I would welcome your sense of that.

22 MR. COIBION: Well, there's a tremendous  
23 amount on both sides. The grade A product -- I wish I  
24 had the amount of tons that come into the marketplace  
25 strictly on grade A. I don't have those figures, but

1 --

2 COMMISSIONER HILLMAN: And from your  
3 perspective, what is the price differential typically  
4 between a grade A and a grade b?

5 MR. COIBION: If I had to give you a guess,  
6 I would say it would be around 10 percent.

7 COMMISSIONER HILLMAN: Ten percent  
8 difference, okay.

9 MR. COIBION: And I did mention that I will  
10 try to supply those figures to you in a post-hearing  
11 brief.

12 COMMISSIONER HILLMAN: I'd appreciate it.  
13 And then to try to understand some of Professor  
14 Prusa's documents relating to "construction" and the  
15 construction index. Again, help me understand if I'm  
16 looking at that, how big a factor is this kind of  
17 standard pipe in construction? In other words, what  
18 portion of standard pipe would you say go into  
19 construction?

20 MR. COIBION: Well, it's very large in the  
21 construction industry. Mechanical contractors use a  
22 lot of it.

23 COMMISSIONER HILLMAN: Okay. Professor  
24 Prusa, perhaps if I can come forward on this issue on  
25 construction and how to read some of this data that

1 you put up there. Again, I'm trying to square this  
2 with the testimony that we've heard. I mean, I think  
3 we heard from the domestic industry that residential  
4 construction, for example, really does not use much in  
5 the way of standard pipe. I mean, certainly if I look  
6 around my house, I'm not sure I can find any, maybe,  
7 but certainly not very much. So, if in all of your  
8 data on construction, a huge portion of this is  
9 residential construction, I'm not sure how relevant  
10 that is to our analysis, because it's -- you know,  
11 again, this product is largely not used. So, help me  
12 understand, when you put up these charts with this  
13 issue of construction, what's included in that and how  
14 relevant is it to standard pipe?

15 MR. PRUSA: Sure. This is Tom Prusa. The  
16 construction numbers I pulled up were all  
17 construction. It's all construction, residential and  
18 non-residential. I'm happy in the post-hearing to  
19 break out just the non-residential numbers. And it  
20 will be a little bit different, but it's going to show  
21 you the same thing, which is, again, non-residential  
22 construction has not turned down like you see this  
23 pipe demand turn down. So, again, I think you even  
24 heard one of the domestic guy say that there are  
25 applications now, that he's having customers switch to

1 PVC instead of standard pipe. That was somebody --  
2 one of the guys this morning. So, I'm happy to redo  
3 that chart just with non-residential -- just with non-  
4 residential.

5 COMMISSIONER HILLMAN: I think it would be  
6 helpful --

7 MR. PRUSA: You bet.

8 COMMISSIONER HILLMAN: -- given the  
9 testimony that this is not a product that goes heavily  
10 or much at all into residential construction.

11 MR. COIBION: But, again, the main idea is  
12 that unless non-residential construction has  
13 experienced such a dramatic decrease in demand, you're  
14 certainly going to see that -- I just call it the pipe  
15 intensity. The idea is how much pipe per -- you know,  
16 non-residential construction. It's going to be  
17 nothing the same. It would suggest that their pricing  
18 themselves, consumers, that is some of the non-  
19 residential people are opting for other products. I'm  
20 happy to produce that. It's no problem.

21 COMMISSIONER HILLMAN: I'd appreciate it.  
22 Thank you. Mr. Coibion, if I can come back to you.  
23 In response to an earlier question, I think you said  
24 that prices would need to be 15 to 20 percent below  
25 domestic prices, in order for you to have incentive to

1 purchase Chinese product. Is that --

2 MR. COIBION: To get our customers to  
3 purchase it, yes.

4 COMMISSIONER HILLMAN: To get your customers  
5 to purchase it. Just so I understand it, have you  
6 been purchasing domestic product? I mean, I'm looking  
7 at underselling margins in this record that are in  
8 excess of 20 percent.

9 MR. COIBION: Right. We have not been.

10 COMMISSIONER HILLMAN: Okay.

11 MR. COIBION: Our company --

12 COMMISSIONER HILLMAN: I'm trying to  
13 understand how -- I'm sorry, go ahead.

14 MR. COIBION: I'm sorry, our company tries  
15 to track them as best we can and that's where I get my  
16 numbers.

17 COMMISSIONER HILLMAN: Okay. So, it's not  
18 from a purchasing experience, that you're saying you  
19 were in the domestic market and when the prices were  
20 15 to 20 percent below that was enough of a push to go  
21 to the Chinese product?

22 MR. COIBION: Okay, let me go back to that,  
23 then. When I was with the distributor at a previous  
24 job from Forrestaal, we would always use the guideline  
25 of 15 to 20 percent below domestic market. Now, when

1 I was with the distributor, yes, we bought from the  
2 domestic marketplace. Now, some of those numbers may  
3 have since change. I don't have --

4 COMMISSIONER HILLMAN: Okay.

5 MR. COIBION: -- the access to them that I  
6 used to have.

7 COMMISSIONER HILLMAN: Okay. So, your 15 to  
8 20 percent is based on knowledge of the market some  
9 time ago, not on present day prices or condition of  
10 competition?

11 MR. COIBION: No. It's based on the  
12 information that my companies supply to me now, yes.

13 COMMISSIONER HILLMAN: Okay. All right,  
14 even though you are not, yourself, a purchaser of  
15 domestic product?

16 MR. COIBION: That's correct.

17 COMMISSIONER HILLMAN: I appreciate that.  
18 Mr. Barringer, if I can come forward to you on sort of  
19 a legal question. As I hear your argument, I  
20 understand all the arguments that were made on the  
21 price side, but as I hear your arguments on the volume  
22 indicators of injury, decline in production, decline  
23 in employment, decline in hours worked, decline in  
24 what I would call all of the volume factors, as  
25 opposed to the financials connected to price, I just

1 want to make sure I get it, I'm mostly hearing you  
2 say, yes, they are all there, but the reason that  
3 they are not -- you are not attributing to them to  
4 Chinese imports, as opposed to there aren't any volume  
5 indicators of injury.

6 MR. BARRINGER: I would say that there is no  
7 injury to the industry, okay. And I think when you  
8 look at the industry, you know, you're not supposed to  
9 look at a single indicator and its health. You're  
10 supposed to look at a variety of indicators. When you  
11 move from that to looking at the issue of causation,  
12 okay, then you have to see what is attributable to  
13 what, if I can put it that way. And our view is that  
14 the volume is attributable to something else.

15 The workers, I don't know how many of the  
16 workers have been transferred to other production runs  
17 or remain in other capacities. All I know is they've  
18 reduced them. Maybe, they've taken them over to a  
19 mechanical tube mill that they think is much more  
20 profitable. I think there's a real problem when you  
21 have a multi-product company that can use single  
22 production lines for multiple products to start  
23 attributing their employment problems or even their  
24 volume problems to a single product. Companies make  
25 choices. Those choices are generally driven to

1 increase profitability. If their choice is, I want to  
2 make five percent more OCTG and 10 percent less  
3 standard pipe, because that's my best product and it's  
4 to maximize my profits, that's not imports that are  
5 making that -- creating that problem.

6 COMMISSIONER HILLMAN: Thank you.

7 CHAIRMAN KOPLAN: Commissioner Lane.

8 COMMISSIONER LANE: Good evening. I guess  
9 there is a price to pay when you go first early in the  
10 morning, you get to be last in the second round.

11 Earlier, I asked the Petitioners for their  
12 proposed definition of the domestic pipe product in  
13 the domestic industry. Do you agree with their  
14 definition and, if not, what is your proposed  
15 definition and how does it differ, Mr. Barringer?

16 MR. BARRINGER: We have not contested the  
17 definition of the pipe product. Our major problem is  
18 with the dual stenciling issue. We can address that  
19 in the post-hearing brief, but we haven't submitted an  
20 attack on the pipe product as it is currently defined.

21 COMMISSIONER LANE: Okay. I'm not sure I  
22 understood your answer. Does that mean that you agree  
23 with the Petitioners --

24 MR. BARRINGER: The dual.

25 COMMISSIONER LANE: -- definition or does

1 that mean that you might agree, but you will talk  
2 about it in the post-hearing brief?

3 MR. McCULLOUGH: I think we can talk about  
4 it some in the post-hearing brief. But, as Mr.  
5 Barringer alluded to, the problem we have identified  
6 is with dual stenciling, and the issue of knowledge  
7 and over-reporting. I think is very consistent with  
8 the problem that MAN Ferrostaal is having with the  
9 idea of an end-view certification, particularly on  
10 this dual stenciled product because nobody knows what  
11 it is used for, and the industry, itself, treats that  
12 product as a line-pipe product.

13 COMMISSIONER LANE: Okay. But you will  
14 directly address, in your post-hearing brief, whether  
15 or not you agree with the definition as proposed by  
16 the Petitioners?

17 MR. McCULLOUGH: Yes, we can do that.

18 COMMISSIONER LANE: Okay, thank you.

19 How would you characterize supply and demand  
20 for standard pipe in China since 2001? Have there  
21 been shortages in some years due to high commercial  
22 construction levels or other factors, and has capacity  
23 increased faster than domestic demand?

24 If so, in what years? Mr. Barringer?

25 MR. BARRINGER: I was hoping that you were

1 asking that of someone else.

2 COMMISSIONER LANE: No, I thought I should  
3 treat you the same as I treat Mr. Schagrin. I will  
4 address all of my questions to you.

5 MR. BARRINGER: I am quite sure that demand  
6 has increased and increased substantially. I do not  
7 know what the relationship between the increase in  
8 demand and the increase in production is, and I am  
9 aware that there have been periods of shortages in  
10 China, but, again, I can't give you those specifics.  
11 But we will certainly endeavor to get that  
12 information.

13 COMMISSIONER LANE: Okay. Stay with me  
14 here. To what extent are Chinese plants able to make  
15 both standard pipe and other types of pipe; and can  
16 most plants, or just some plants, produce standard and  
17 other types of pipe; and do the plants that produce  
18 both standard and other pipe tend to be newer and  
19 larger plants?

20 MR. BARRINGER: I guess if you withdraw your  
21 questions to Mr. Schagrin, I would be happy that you  
22 withdraw them to me, too.

23 We will, again, get that information. One  
24 point which I do think is relevant is that a number of  
25 the plants do not have the capability to make the

1 Grade B product. And that relates to treatment of the  
2 weld after the pipe has been welded. I do know that  
3 there are plants that make both OCTG and standard pipe  
4 like there are here, but I can't tell you that I have  
5 a sense exactly of who does what and how much. But we  
6 will get that information for you.

7 COMMISSIONER LANE: Okay. You may want to  
8 address this, too, in your post-hearing. For the  
9 plants that produce both standard and other types of  
10 pipe, what assumptions were used to project current  
11 and future standard-pipe capacity and production, and  
12 do those assumptions assume a shift away from standard  
13 pipe?

14 MR. BARRINGER: Okay. We will review -- I  
15 assume you are asking how they divided multiple  
16 capacity that can make multiple products into, and  
17 then how they projected forward on how much would be  
18 standard?

19 COMMISSIONER LANE: Yes. Okay, and the last  
20 question in this series of questions --

21 MR. BARRINGER: You see, I know nothing  
22 about the Chinese pipe industry with all these  
23 questions that you are asking me.

24 COMMISSIONER LANE: Tell me again who you  
25 represent?

1                   MR. BARRINGER: The Chinese Pipe Industry,  
2 but you are getting very detailed into --

3                   COMMISSIONER LANE: Okay. What additional  
4 information can you provide us about new plants and  
5 expansions that have come on line recently, or are  
6 projected to come on line during the next two years?

7                   MR. BARRINGER: We will provide you that  
8 information as well.

9                   COMMISSIONER LANE: Okay. These are some  
10 more questions along the same lines I guess.  
11 Petitioners' pre-hearing brief, page 6, states that  
12 subject imports have grown and are especially  
13 significant because they are concentrated in high-  
14 value galvanized product.

15                   Do you agree with this statement?

16                   (Pause)

17                   MR. BARRINGER: I believe that may be in the  
18 Staff Report, how much is galvanized and how much is  
19 not, but I don't have that off the top of my head. If  
20 it is not in the Staff Report, we will get that  
21 information for you.

22                   COMMISSIONER LANE: Okay. Do lead times and  
23 just-in-time delivery requirements give domestic  
24 producers a geographic competitive advantage over  
25 subject and non-subject imports?

1           MR. BARRINGER: Well, certainly it gives the  
2           domestics an advantage over China. I think there is a  
3           diminishing advantage, vis-a-vis Canada, which is one  
4           of the reasons perhaps that Canada has been a large  
5           supplier, historically.

6           There is a smaller advantage, vis-a-vis  
7           Mexico, so I think it is going to vary. But I think,  
8           obviously, importers do not like to inventory;  
9           purchasers from importers don't -- the longer the lead  
10          time, the higher the risk because prices can change.  
11          So you agree, on December 1, that you are going to pay  
12          \$600 and by the time six months later that gets here  
13          and the market price is \$400, you are going to lose  
14          \$200 when you resell it.

15          So there are multiple factors that favor the  
16          domestic industry with those factors affecting Canada  
17          and Mexico perhaps somewhat less. And I think that is  
18          why, generally, there is a discount off of the  
19          domestic price for the imported product to account for  
20          the risk and the lead time.

21          MR. McCULLOUGH: Commissioner Lane is coming  
22          back to your question on what other products the  
23          Chinese industry can make on the same equipment.

24          Actually, when we first got the  
25          questionnaires from the Commission, there was a

1 handful of questions that addressed that issue that  
2 were not in that questionnaire. We received them  
3 later, hence many of the responses on that came much  
4 later to the Commissioner. So I don't think that it  
5 was compiled in the Commission's Staff Report. But,  
6 if I recall correctly, a number of the responding  
7 producers indicated that they do not produce other  
8 products on the same equipment as they make their  
9 standards on.

10 We will try to compile that, but maybe the  
11 Commission staff may have already compiled a lot of  
12 this information at this point.

13 COMMISSIONER LANE: Okay, thank you. Since  
14 the yellow light is on, I will wait until my next  
15 round to ask the rest of my questions. Thank you.

16 CHAIRMAN KOPLAN: Thank you, Commissioner.  
17 Commissioner Pearson.

18 COMMISSIONER PEARSON: Thank you, Mr.  
19 Chairman.

20 Mr. Barringer, going back to this issue of  
21 the end-use certification that might be required for  
22 dual stenciled product, if, indeed, the Commission  
23 does vote in the affirmative, is there anything that  
24 could be done to prevent that from being a commercial  
25 problem in the marketplace?

1           MR. BARRINGER: I will let Ferrostaal answer  
2 that, but the basic problem is that the end user is  
3 the only one that knows how it is going to be used.  
4 Between the producer in China and the end user here,  
5 you have at least an importer and a distributor.

6           COMMISSIONER PEARSON: Okay.

7           MR. BARRINGER: The distributor likely is  
8 stocking various pipes from various sources and not  
9 distinguishing between them when they go out the door.  
10 So the difficulty is that distributor, in order to  
11 essentially purchase the pipe, would have to be  
12 required to keep records as to which pipe went to  
13 which end-use customer.

14           COMMISSIONER PEARSON: I wasn't asking a  
15 commercial question because I accept if this was  
16 implemented, the marketplace would have a very  
17 difficult time dealing with it, okay. I was more  
18 trying to ask a legal question because if this a Title  
19 7 case, we would think: Hmm, maybe there is a scope  
20 problem here. Perhaps we should encourage Respondents  
21 to go talk to Commerce and see if they can get the  
22 scope adjusted.

23           In this 421, I don't believe Commerce plays  
24 that sort of role, okay, and there are indications  
25 that they do not, okay.

1 (Laughter)

2 In that case, what are the legal options  
3 available to the Commission to address this particular  
4 issue, if we should choose to do so?

5 MR. BARRINGER: Well, I can let my  
6 colleagues behind me address that, but certainly you  
7 would not be required to include it in the remedy. In  
8 other words, to have an end-use certification in the  
9 remedy which, in effect, would eliminate the dual  
10 stenciled product from the scope of any remedy; and,  
11 depending on the volume, I don't see any reason why  
12 you couldn't do that. I think we could probably find  
13 out what the volume is.

14 Keep in mind -- and, to me, in this type of  
15 proceeding I find it increasingly troubling, in Title  
16 7 proceedings, to try to address possible  
17 circumvention through original scope issues. There  
18 are ways to deal with circumvention; there are ways to  
19 deal with circumvention under the anti-dumping law;  
20 there are way to deal with circumvention under Section  
21 421, if the record indicates that there is a  
22 falsification in terms of the declarations when the  
23 product is coming in, that's Customs fraud.

24 So, to me, the notion that we should be  
25 defining the product that we are investigating by

1 expanding the definition to a situation which might or  
2 might not occur, to me, seems very improper and  
3 inappropriate.

4 MR. PORTER: Commissioner Pearson, can I add  
5 one thing? You asked about: What legally can be done?  
6 Obviously, the 421 cases are not as developed, since  
7 it's a newer law, as the second 201. But I think we  
8 can look to what we call the traditional safeguard in  
9 Section 201, and perhaps we will look into whether  
10 there is any problem in the law on this, but do the  
11 same thing that you all did in the 201 case and that  
12 is: develop a mechanism for exclusions.

13 And, as I think you know, you imposed some  
14 relief on the domestic industry, but then you sort of  
15 had an escape part that says: Okay, where there are  
16 products that has been kind of swept up in a kind of  
17 broad scope, we are going to allow a mechanism to have  
18 them excluded. In fact, that was actually then given  
19 to the Commerce Department to help sort out.

20 So I am just suggesting that perhaps a  
21 similar mechanism could be adopted.

22 COMMISSIONER PEARSON: Does the statute  
23 permit us to define dual-stenciled pipe as a separate  
24 like product and, then, potentially vote negative on  
25 that like product?

1 Yes, Mr. Coibin?

2 MR. BARRINGER: I would argue that you could  
3 define it as a separate like product. I think the  
4 problem you have is --

5 COMMISSIONER PEARSON: You could not?

6 MR. BARRINGER: You could.

7 COMMISSIONER PEARSON: We could.

8 MR. BARRINGER: You could. The problem is  
9 that many of the characteristics are identical and can  
10 be identical, so there would be the stenciling, in  
11 essence, that would be the separate like product.

12 COMMISSIONER PEARSON: Okay. If there a  
13 legal theory that supports that approach, it would be  
14 good to know more about it in the post-hearing,  
15 perhaps even have enough information that would  
16 substantiate it, give us something to go on.

17 Mr. Coibion, do you --

18 MR. COIBION: If I may say something here.  
19 As I listen to the testimony of the Petitioners, their  
20 primary interest here is Grade A material, they feel  
21 that they are being harmed by it.

22 ASTM 853 Grade B, and 8PI 5 L Grade B, in no  
23 way is included in that argument. Both of those  
24 specifications should be excluded from ASTM 853 Grade  
25 A. They are a totally different products.

1 Does that answer your question?

2 COMMISSIONER PEARSON: Well, in part. I  
3 think I understood that. I am dealing in an imperfect  
4 way with the legal challenges that we are facing on  
5 this particular issue, but my colleagues may get me  
6 out of this mess.

7 So why don't I shift gears and ask a  
8 question of Professor Prusa relating to one of your  
9 lovely charts here, and I have to confess it has  
10 probably been 30 years or so since I have taken an  
11 economics class. So I am having difficulty absorbing  
12 all of the information at the pace it was provided.

13 But it is in the first half of the  
14 presentation. It is not numbered. It is headed:  
15 Overall Import Level Stable Except for 201. It is  
16 showing that the import volume was flat over the  
17 period. In that particular chart, you have got the  
18 blue bars indicating all sources and the other bars  
19 indicating all sources adjusted. I missed what that  
20 adjustment was all about.

21 MR. PRUSA: The Petitioners have proposed  
22 the Commission ignore U. S. import statistics  
23 involving Canada, and they propose essentially  
24 excluding almost all standard pipe that comes in from  
25 Canada, arguing that even though stats Canada has no

1 idea about half of this Canadian standard pipe is. So  
2 it comes in in RHS codes. They went to look at  
3 Canadian export statistics and there is a disconnect  
4 because Canada's export statistics don't match U. S.  
5 import statistics. They undercount dramatically.

6 So, for the large amount of standard pipe  
7 that U. S. Import Statistics, this case we would call  
8 standard pipe from Canada, they say: Throw it out  
9 because we believe, although we don't really know,  
10 that it is not mechanical tubing. We think it's  
11 mechanical tubing.

12 So it appears that the Staff Report has  
13 accepted this novel idea, which is using the other  
14 country's exports, actually as a person who would  
15 think that in Title 7 cases, this is an excellent  
16 precedent Mr. Schagrín wants to establish, which is  
17 allowing arbitrarily throwing out imports because you  
18 can come up with some basis, not verifiable, where  
19 lots of volume is.

20 So, right now, it appears that the Staff  
21 Report has reported those tables as adjusted by  
22 Petitioners. It begins taking up all the Canadian  
23 volume, 90 percent of the Canadian volume they take  
24 out; and, even if you do that, that is what I call  
25 adjusteds, all sources adjusted according to the

1       Petitioners' preferred way of defining imports. They  
2       prefer to adjust imports for Canada, the second  
3       largest supplier to the market, but no one else.

4               COMMISSIONER PEARSON: Okay. Thank you for  
5       that clarification. My time has expired.

6               CHAIRMAN KOPLAN: Thank you, Commissioner.  
7       Commissioner Aranoff.

8               COMMISSIONER ARANOFF: Thank you. Two  
9       questions. First, and this may get to some  
10       confidential information, so feel free to answer  
11       whatever parts of it you need to in your brief.

12               Your pre-hearing brief doesn't address the  
13       sections of the Staff Report that deal with  
14       underselling or really with loss of sales. My  
15       question to you is: Is it your view that neither of  
16       these sections of data are probative evidence of price  
17       suppression; and, if so, why not?

18               MR. BARRINGER: We can certainly address  
19       them. If you will, the macro evidence, in our view,  
20       is so overwhelming, the absence of price suppression  
21       and depression that it renders that exercise  
22       irrelevant. I mean you saw the slide which compared  
23       piping tube increases with hot-rolled increases, with  
24       cold-rolled increases, with bar increases.

25               You know the piping tube subject to this

1 investigation has increased no more than any other  
2 product in the marketplace, or any other major product  
3 in the marketplace that we have been able to identify.  
4 So, if you can increase your prices more than your raw  
5 material suppliers, more than competitors or companies  
6 making competitive products, more than the industry in  
7 general, how can you, with a straight face, say: My  
8 prices have been suppressed and depressed.

9 But the second part of that is when the  
10 margin between your input and your output, which are  
11 your costs and your price, is widening, how can you  
12 say that your prices have been suppressed or  
13 depressed? So, we are happy to go down and go through  
14 that particular exercise. But, in our view, it is, at  
15 best, anecdotal evidence, which certainly cannot  
16 overwhelm the clear, more macro evidence.

17 COMMISSIONER ARANOFF: I appreciate that. I  
18 take that as an anomaly, or maybe that it just doesn't  
19 cover enough of the trade to be meaningful, but I  
20 would appreciate it if you went through that exercise.

21 Mr. Prusa?

22 MR. PRUSA: Excuse me, Commissioner Aranoff.  
23 I think this gets at what I believe Commissioner  
24 Hillman was asking earlier, which is: Is it truly  
25 apples to apples?

1           And given the extremely compressed time  
2 frame the staff had to put out this questionnaire in  
3 an anti-dumping case, surely this information that we  
4 need to ask, pricing information to distinguish a  
5 product price for Grade A, versus a product price for  
6 Grade B, that surely would have come up in the longer  
7 time period.

8           In this particular case, because it is so  
9 compressed, the AUVs, we believe, are reflecting Grade  
10 A prices. You have seen the data. We know U. S.  
11 pricing data. There is no doubt that the Chinese  
12 product is coming under the U. S. price. That is also  
13 like saying that the U. S. industry is profitable. It  
14 is something that we all agree on what the data shows.

15           The question is: Is that an apples to apples  
16 comparison?

17           We think that one reason that the price gap  
18 is so big is that the U. S. companies are selling  
19 Grade B; under the questionnaire data, we are pricing  
20 you Grade B product primarily. And the Chinese, we  
21 are very confident, are selling almost entirely, or a  
22 majority, Grade A product. That is going to expand;  
23 and, according to what industry witnesses said today,  
24 perhaps \$100 or more of that gap is a Grade A, Grade B  
25 gap.

1                   But we don't know because, unfortunately,  
2                   the statute doesn't give you time to put out perfect  
3                   questionnaires.

4                   COMMISSIONER ARANOFF: I appreciate that.

5                   I am going to turn to another question now.  
6                   My first question sort of went to the: You can't find  
7                   price depression when prices are going up so much. My  
8                   second question goes to the sort of generalized  
9                   assertion that you can't find material injury where  
10                  the domestic industry is as profitable as it appears  
11                  to be.

12                  I am going to ask this question because you  
13                  know that Mr. Schagrin, in raising this issue this  
14                  morning, gave me two extra years on my term here at  
15                  the Commission, so I feel that I owe it to him because  
16                  he has extended me from seven years to nine. But it  
17                  is true that the domestic industry doesn't have to be  
18                  unprofitable to be materially injured or threatened  
19                  with material injury.

20                  And the statute gives the Commission a long  
21                  list of factors to consider in determining whether the  
22                  industry is materially injured, and it doesn't tell  
23                  them that any one is entitled to more weight than any  
24                  other. There are a number of indicators in the record  
25                  which don't look as good for the domestic industry as

1 some of the ones that you have emphasized and that  
2 includes: declines in employment, hours of work, pay,  
3 increases in inventories, decreases in shipment's  
4 capacity utilization and there are a bunch of other  
5 things in there.

6 So I guess my question to you is: How should  
7 we weigh those things?

8 MR. BARRINGER: Well, I think that the first  
9 element you have to look at is profitability. Whether  
10 a business is doing well or not doing well is  
11 reflected in its profits. I mean that is the way that  
12 I run my business; that is the way most people run  
13 their businesses unless they are a not-for-profit,  
14 which none of the companies involved here are.

15 So, then, you look at it and you say okay,  
16 we have -- and again, this comes up so much because of  
17 these multiple product lines. So the question is:  
18 What does it really mean in a period where, although  
19 they have denied it, there are availability problems  
20 for raw material, where they are doing well in the  
21 OCTG market and making a lot of money. And, by the  
22 way, a lot of this excess capacity is there because  
23 the OCTG market is a boom-or-bust market. So when the  
24 OCTG market goes up, you want to be able to serve it,  
25 and other times it dies.

1           Same thing with line pipe. If there is a  
2 big new project, demand goes up. So they maintain  
3 this excess capacity. In my view they don't maintain  
4 it for standard pipe. They maintain it so that they  
5 are able to serve these other markets, and it gives  
6 them a solid base to operate from by having kind of a  
7 stable, steady standard pipe.

8           So, under those circumstances, how are you  
9 going to evaluate the capacity utilization? If you  
10 take workers from one line and put them on the other  
11 line, and the other line is making a more profitable  
12 product, and you have got to make some allocations  
13 internally of how much steel you've got and send it to  
14 different places, how do you evaluate those employees  
15 and what that means?

16           What I am saying is: it is not a straight-  
17 numbers game. You know to just say: Oh, we have two  
18 hundred less workers today than we had last year.  
19 There are very, very, very few steel enterprises that  
20 have laid off many, many, many workers. They have  
21 done it for a reason: to be more productive. They  
22 have done it for another reason: they had new union  
23 rules which allowed them to lay off workers and be  
24 more efficient.

25           So my problem is: I don't see the link

1 between the volume and the other issues because they  
2 haven't been separated well enough between the other  
3 products and other factors that would affect  
4 employment capacity and so forth.

5 And if you buy a facility and you close it  
6 two months later, that is not imports that are leading  
7 you to do that, and that is one of the cases here  
8 where a facility was bought and shut. I am not sure  
9 that that clarified anything but I did my best.

10 COMMISSIONER ARANOFF: I had a follow-up but  
11 I ran out of time. Thank you.

12 CHAIRMAN KOPLAN: Thank you, Commissioner.

13 Mr. Barringer, I think I will stay with you  
14 for a couple of questions.

15 Assuming six months between ordering and  
16 delivery, are Chinese shipments priced when the orders  
17 are placed or at some other time before delivery?

18 MR. BARRINGER: The orders are priced at the  
19 time of placement.

20 CHAIRMAN KOPLAN: Thank you.

21 Our pre-hearing Staff Report, at page 5,  
22 indicates that the level of capacity utilization of  
23 Chinese producers, over the period for which data were  
24 collected, reveals some available capacity to increase  
25 production of subject pipe in the event of a price

1 change.

2           The staff notes and I quote: "Data submitted  
3 by Chinese producers of circular welded non-alloy  
4 steel pipe include capacity and production projections  
5 for 2005 and 2006. Based on these projections,  
6 capacity-utilization rates would be 47 percent in 2005  
7 and 46.2 percent in 2006. At those levels, Chinese  
8 producers would have a fairly large amount of excess  
9 capacity with which they could increase production."

10           Do you disagree with that?

11           MR. BARRINGER: I am going to have to look  
12 at where those numbers are and where they came from  
13 because up above, there is a pretty high-capacity  
14 utilization number, so I don't know what the --

15           CHAIRMAN KOPLAN: It is the footnote that I  
16 was just referring to on that page.

17           MR. BARRINGER: Okay.

18           CHAIRMAN KOPLAN: The projections are in  
19 that footnote.

20           MR. McCULLOUGH: Chairman Koplan?

21           CHAIRMAN KOPLAN: Yes, Mr. McCullough?

22           MR. McCULLOUGH: This may be related. There  
23 was a compilation error in the data that was later  
24 fixed by the Commission and revised tables were sent  
25 out. I will have to take a look and see if it is

1 related to this as well. It may very well be where  
2 there were a few questionnaires, production capacity  
3 were double-counted in the data that was collected and  
4 were subsequently adjusted. I will have to take a  
5 look at that, though, and we can address that in post-  
6 hearing.

7 CHAIRMAN KOPLAN: Would you do that?

8 MR. McCULLOUGH: Yes.

9 CHAIRMAN KOPLAN: Sure. That brings me,  
10 though, when you mentioned that to one other thing.  
11 On my first round, I made reference to Table 4-2 and  
12 included numbers at that time. What I forgot was that  
13 Table 4-2 was revised by the staff and that happened  
14 on September 8, 2005.

15 The numbers that I cited to you in my  
16 earlier round changed slightly, those that I quoted.  
17 But in 2004, even with the revised numbers, it still  
18 appears to me that even with those new numbers,  
19 Chinese exports to the U. S. more than doubled. But I  
20 did want to correct myself because there is a revised  
21 Table 4-2.

22 With that, I have no additional questions  
23 and I will turn to Vice Chairman Okun.

24 VICE CHAIRMAN OKUN: Thank you. Let me just  
25 ask a couple more demand questions. I know in

1 response to questions to Commissioner Lane, you have  
2 indicated that you will try to collect some  
3 information with regard to Chinese demand in its own  
4 country, and if you could also do that, any  
5 projections; and, obviously, the closer you can get to  
6 the subject product, I know that there are a number of  
7 things that we have looked at in recent cases that I  
8 would be interested in seeing for purposes of star  
9 factors to look at.

10 Then, the second question, and if you have  
11 answered already, you can let me know. But in terms  
12 of demand for this product, and Mr. Coibin, I don't  
13 know if you had a chance to talk about how you thought  
14 demand going forward and whether you think, or have  
15 any reason to know, whether Hurricane Katrina will  
16 impact demand projections?

17 MR. COIBION: That's really hard to project.  
18 The only thing I can tell you is this morning when I  
19 got up, I had four e-mails regarding that very issue.  
20 Being from the Gulf Coast, I was told that three of  
21 the contractors that I used to deal with very closely,  
22 they are still good friends of mine, have moved into  
23 the Baton Rouge area and are going full stream trying  
24 to get as much steel pipe that they can get their  
25 hands on to use for piling in different areas of the

1 area. For what, I am not totally sure yet.

2 I also was told that the damage to the  
3 underground piping system off-shore has been very  
4 severe, much more than what was originally  
5 anticipated. This will all come out, I am sure, over  
6 the next several weeks. Engineering is going to  
7 require all of these lines, as I understand, to be  
8 redesigned to where these things never occur again.  
9 Steel demand for the remainder of this year, and  
10 probably and certainly all of next year, and the next  
11 few years, because of that tragedy is going to be  
12 tremendous.

13 I don't know to what extent obviously, but  
14 we know that it is going to be tremendous.

15 VICE CHAIRMAN OKUN: Well, as we know, it  
16 has always been very difficult to understand what  
17 early projections mean. But to the extent that you  
18 have, or can find any specific information with regard  
19 to those issues that you could put on the record for  
20 post-hearing, we would appreciate seeing that. It  
21 would be helpful.

22 Mr. Barringer and Professor Prusa, let me go  
23 back and ask you this question. It relates a little  
24 bit to what I was talking about before, which is: If  
25 we don't use the lag what happens? The other thing,

1 and I know Professor Prusa you talked about the charts  
2 that you have used for this and that were also part of  
3 the pre-hearing brief, the fact that, in a 421, with  
4 the time lines that you are working under, it was  
5 easier to use public data to prepare because you  
6 didn't know what was coming in, and I very much  
7 appreciate that part of it.

8 But my question is whether you could go  
9 back, as part of post-hearing, and make your arguments  
10 based on evidence that is in the Staff Report, or what  
11 will be in the Staff Report. You probably know as  
12 well as I do, but one of the things I think I heard  
13 you say was, to the extent you used a pricing product,  
14 I think it was that 4.5-inch galvanized welding,  
15 prices for a lot of it that you went back and looked  
16 at the specific pricing information and it didn't  
17 change.

18 Did I hear you correctly on that?

19 MR. COIBION: Yes, you did. That was one of  
20 the pricing products that you did collect data on as  
21 it turned out. Yes, it is.

22 VICE CHAIRMAN OKUN: Okay. If you could  
23 look at the other products to see if it supports your  
24 argument.

25 MR. COIBION: What my quick look was is that

1       there was -- I know I have again public data on  
2       another product that was very close. It was I think  
3       an average one, the Black weld. I think that it is  
4       one of the footnotes in the brief. Again, it tracked  
5       very closely what -- let me just follow up on it.

6               Specifically, are you asking me to go back  
7       and either: one, show that the price series I used  
8       matches up with your price; or are you asking me to go  
9       back and calculate specifically using your pricing  
10       series and show you how that this issue that if you  
11       lag in that case one-quarter hot-rolled, or the prices  
12       that can be produced, again this margin squeeze?  
13       Because I just want to follow up and be sure that I  
14       understand what you are asking me to do.

15               VICE CHAIRMAN OKUN: Well, I think it is the  
16       latter, actually.

17               MR. COIBION: The latter, okay.

18               VICE CHAIRMAN OKUN: But again, you can look  
19       at this and decide how you want to present it for  
20       purposes of the brief.

21               MR. COIBION: Okay.

22               VICE CHAIRMAN OKUN: But my point would be:  
23       To the extent that Mr. Schagrins' comments on the  
24       information that was in the brief was that if you are  
25       not using the actual data in the Staff Report, it is

1 easier to paint your picture if you have to use this  
2 data, then you can't.

3 MR. COIBION: Sure.

4 VICE CHAIRMAN OKUN: And I would like to see  
5 how you respond to that. And also, just in terms of  
6 even with regard, I guess these charts are numbered,  
7 but when you are talking about the domestic price  
8 inversely related to pipe demand and the elasticity  
9 arguments, does the Chinese follow the same -- I mean  
10 if you put the Chinese -- I am trying to remember. I  
11 think that is correct.

12 If you track the Chinese using the same in  
13 Chinese shipments and their prices, do you get the  
14 same -- what happens? What does this look like?

15 MR. COIBION: Okay, again, so the issue with  
16 the Chinese story --

17 VICE CHAIRMAN OKUN: Right.

18 MR. COIBION: Are you asking about when the  
19 product was ordered from China? Because I think the  
20 challenge is is that if we just wanted a shipment,  
21 because we had an earlier slide showing you that the  
22 shipments are not going to match up in the same way.

23 If we want to look at when the orders were  
24 made with China, and again we have testimony on the  
25 record that it is six-month lag between the time --

1 again even in the morning, they were saying the same  
2 thing. Yes, you get exactly the same thing.

3 Again, is that something you would like me  
4 to run through?

5 VICE CHAIRMAN OKUN: Well, I think if you  
6 could do both. Since, again, I am just trying to  
7 understand, not that I am saying that I agree or  
8 disagree with how you are doing it. It is just if you  
9 put Chinese shipments on --

10 MR. COIBION: Shipments, not order dates?

11 VICE CHAIRMAN OKUN: If you did the order --  
12 I mean you can show it both ways but --

13 MR. COIBION: Well, it is an important issue  
14 because if I order it from somebody in the United  
15 States --

16 VICE CHAIRMAN OKUN: Right.

17 MR. COIBION: -- it comes this week, and if  
18 I order from China, it will come some time next  
19 spring. So that is going to be a considerable  
20 difference in the patterns that are just coming purely  
21 out of the fact that there is a long -- but I will  
22 produce it either way for you.

23 VICE CHAIRMAN OKUN: Okay.

24 MR. COIBION: And I am very confident that  
25 it won't hold up so well when we do shipments.

1 Because, again, there is a spurious problem there. It  
2 comes from a long lag --

3 VICE CHAIRMAN OKUN: Right. But, again, you  
4 can explain that in detail. My point is just that, to  
5 the extent that those were criticisms that one could  
6 make that the Staff Report -- well, you know that the  
7 Chinese are not behaving the way that you say the  
8 domestics are behaving, why and I understand your  
9 explanation. But if you could track it, that would be  
10 helpful in dealing with the elasticity issue.

11 Then, on thinking about elasticities, it  
12 reminded me that with regard to remedy, I know that in  
13 this part of your presentation, Mr. Barringer, you did  
14 talk about remedy, the quota levels and the tariff  
15 issue. But with regard to specific question that we  
16 were asking Dr. Blecker about: the import supply  
17 elasticity he used, which was between one and two, for  
18 purposes of running the normal chart, that the tables  
19 that the Commission would use in looking at remedy, if  
20 you could discuss what you believe the correct supply  
21 would be of the elasticities would be for purposes of  
22 the post-hearing?

23 MR. BARRINGER: I certainly would. I will  
24 just point out again that that is another example  
25 where they choose elasticities that certainly favor

1 their side and which deviate from the Staff Report.

2 VICE CHAIRMAN OKUN: It's possible that I  
3 made it through my questions, Mr. Chairman.

4 CHAIRMAN KOPLAN: I will accept that.

5 VICE CHAIRMAN OKUN: I need to regroup for a  
6 moment.

7 CHAIRMAN KOPLAN: Are you sure?

8 VICE CHAIRMAN OKUN: Yes.

9 CHAIRMAN KOPLAN: Okay. Commissioner  
10 Hillman.

11 COMMISSIONER HILLMAN: Thank you. I want to  
12 just make sure that I have your sense, and perhaps  
13 this is for you, Mr. Coibin, on the end use,  
14 generally, for standard pipe. If you had to give me a  
15 general percentage that you think goes into  
16 residential, into non-residential, into fencing, into  
17 fire sprinklers, into any of those, and I realize that  
18 some of those are sub-sets of the others, but would  
19 you have a sense of the end-use percentages?

20 MR. COIBION: No, ma'am, I don't.

21 COMMISSIONER HILLMAN: Okay.

22 MR. COIBION: I don't want to give you  
23 something just off the top of my head. I can get that  
24 for you.

25 COMMISSIONER HILLMAN: Again, I am not

1 looking for an exact number. I am just looking for a  
2 general sense of it.

3 MR. COIBION: And I will get that for you.

4 COMMISSIONER HILLMAN: Okay.

5 MR. COIBION: I am sorry that I don't have  
6 the answer for you.

7 COMMISSIONER HILLMAN: Actually, I probably  
8 should have asked it of Mr. Schagrin as well. So if  
9 you don't mind just giving me a general ball-park of  
10 your sense of residential and non-residential,  
11 fencing, fire sprinkler applications, just so I get --  
12 and if there is any other major end-use out there that  
13 I have forgotten, feel free to add it in as well, in  
14 whatever you can give me. I think that would be very  
15 helpful.

16 Mr. Coibin, to the extent that you know it,  
17 how would you describe the prices in the U. S. market  
18 for standard pipe versus prices in say Europe or Asia,  
19 or any other significant markets in the world? How  
20 attractive is the U. S. market these days?

21 MR. COIBION: Well, the U. S. market I think  
22 is -- they still have their price levels quite high.

23 COMMISSIONER HILLMAN: Higher than Europe?

24 MR. COIBION: The European market is also  
25 quite high. In general, their mills are booked solid.

1 COMMISSIONER HILLMAN: The European mills?

2 MR. COIBION: The European mills are booked  
3 solid. Their order entry is very good.

4 COMMISSIONER HILLMAN: And prices would be  
5 higher than in the U. S. or about comparable?

6 MR. COIBION: It wouldn't be enough of a  
7 difference to where anybody would consider purchasing  
8 from Europe right now. I would think that the numbers  
9 would make it comparable to where the domestic  
10 purchase would look very attractive.

11 COMMISSIONER HILLMAN: How about Japan?

12 MR. COIBION: To my knowledge, there is  
13 nothing coming in from Japan right now.

14 COMMISSIONER HILLMAN: But in terms of  
15 selling into the Japanese market, do you have a sense  
16 of what prices are in the --

17 MR. COIBION: No, I don't.

18 COMMISSIONER HILLMAN: Okay. And anywhere  
19 else in Asia?

20 MR. COIBION: No, though you have to realize  
21 that the majority of the sales that I would represent  
22 are in the United States.

23 COMMISSIONER HILLMAN: All right. If there  
24 is readily available data that would help us look at  
25 what relative prices are for standard pipe in Europe

1 or the major Asian markets, Mr. Barringer, if that is  
2 possible?

3 MR. BARRINGER: Yes, ma'am, if it's possible,  
4 we'll get it.

5 COMMISSIONER HILLMAN: Okay. All right, I  
6 would appreciate it.

7 Then, in your brief, you state that orders  
8 for Chinese pipe has slowed and, in some cases, been  
9 canceled. I am interested in exactly when do you  
10 think this slowing, or canceling, of orders occurred,  
11 and are there any specific documents that would show  
12 me that?

13 MR. BARRINGER: My understanding is that the  
14 orders slowed at the point in time where it became  
15 clear that the U. S. market was softening, which would  
16 have been probably in early 2005. We think that that  
17 is reflected in the decline in the September imports,  
18 and we have I would say anecdotal evidence, but we  
19 will try to get some actual kind of quantitative  
20 evidence, if I can put it that way.

21 COMMISSIONER HILLMAN: And I would assume  
22 that the fact that doesn't seem to square with the  
23 Petitioners' claim that import licensing data shows a  
24 potential increase in shipments, is again going back  
25 to this lag issue.

1           MR. BARRINGER: Yes, the importers are  
2 looking at July-August data, which was around 30,000;  
3 and we are looking at September data, which is around  
4 13, 18, whatever it is.

5           COMMISSIONER HILLMAN: So if there is any  
6 specifics on this issue of a slow-down in orders, or a  
7 cancellation of orders, in terms of documentation and  
8 dates, I think that would be very useful, okay.

9           If I could then go to the issue of remedy.  
10 As I heard your argument, Mr. Barringer, if this case  
11 could be decided on a threat basis, I think I heard  
12 you saying that you regard us as having a legal  
13 impediment, or legal requirement that whatever remedy  
14 be imposed, basically not result in any diminution in  
15 the current amount of imports permitted because that  
16 would not be permitted under the threat statute.

17           I am just trying to make sure that I  
18 understand whether this is an argument you are making,  
19 or whether you read the statute and/or any WTO  
20 precedents under safeguards, or other things, as  
21 suggesting that there are some specific limitation in  
22 our discretion to impose a remedy in a threat-based  
23 case?

24           MR. BARRINGER: Well, I think, fortunately  
25 from your perspective, it is the president who

1 ultimately does it. So if he follows your advice, he  
2 is the one that will get in trouble. I am not making  
3 a statutory argument, and obviously we might look at  
4 that. But I am making a logical argument. You have  
5 seen the imports come in. If the industry isn't  
6 injured now, then the only -- I mean you have got a  
7 big gap in the price. We have admitted that, right.  
8 You have an increase, okay. If they are not injured  
9 by that, then how can you say: Okay, we have got to  
10 roll it back? To me, that doesn't seem logical.

11 COMMISSIONER HILLMAN: Okay, all right. A  
12 couple of little things on the chart just to make sure  
13 that I understand it. On this issue of attenuated  
14 competition, Professor Prusa, you noted here that all  
15 U. S. producers have the ability to produce Grade B.

16 I certainly thought that I heard testimony  
17 this morning, from at least a couple of the domestic  
18 producers, that they can only do continuous welding.  
19 I thought I heard them basically saying that you  
20 cannot, then, heat anneal to seam and therefore that  
21 product cannot be Grade B. I just want to make sure  
22 that you and I are on the same page.

23 MR. BARRINGER: I think you need to ask the  
24 domestic producers. But my understanding of what was  
25 said is that there may be a line, or a facility, that

1 they have where they can't do that. But not that  
2 they, as a corporate entity --

3 COMMISSIONER HILLMAN: But you are not  
4 disputing the factual matter that if all your have is  
5 a continuous welder, you are not producing any Grade  
6 B?

7 MR. BARRINGER: I believe that to be the  
8 case because I believe that is one of the problems  
9 that the Chinese companies have, but I would want to  
10 confirm that.

11 COMMISSIONER HILLMAN: Okay. Help me  
12 understand your view of the Chinese welding  
13 technology, is what?

14 MR. BARRINGER: My understanding is that one  
15 of the requirements -- the Chinese have continuous  
16 weld, NERW. But there is a requirement for Grade B  
17 that the weld be reheated, and some word which I  
18 cannot remember right at this moment, but which is  
19 some kind of residue be cleaned off of the welds,  
20 which gives you a higher-quality weld, that requires  
21 additional machinery which most of the Chinese  
22 companies do not have.

23 COMMISSIONER HILLMAN: Okay. Do you have  
24 any sense of the percentage of Chinese production that  
25 would come out of mills that would not have the

1 ability to treat the C?

2 MR. BARRINGER: We can probably develop that  
3 because we know who has what and we have their  
4 production capacity, but we haven't put the two  
5 together.

6 COMMISSIONER HILLMAN: I think you are  
7 trying to understand this relationship and whether  
8 there is attenuating competition and what the Chinese  
9 can and cannot do. I think if it can be done, it  
10 would be helpful, to get an approximation of how much  
11 Chinese production comes out of mills that do not have  
12 the capacity to treat the seams.

13 MR. PRUSA: Commissioner Hillman, may I just  
14 add on thing regarding the particular side. The Grade  
15 A/Grade B question issue was not actually asked in the  
16 questionnaires. So while it is written that way, I  
17 thought I said: We believe all U. S. producers have  
18 the ability to produce Grade B.

19 There was no data collected. Do I know that  
20 -- no, I don't know that with 100 percent. But could  
21 there be an American producer who can't produce Grade  
22 B? Certainly, it is possible, but as Mr. Barringer  
23 just said: It might only be at one facility, so the  
24 producer's overall production can't produce Grade B.

25 So by saying that I believe that all U. S.

1 producers have the ability to produce Grade B and I  
2 believe that all U. S. mills produce primarily Grade  
3 B.

4 COMMISSIONER HILLMAN: I guess partly I was  
5 trying to make sure whether we had a factual  
6 disagreement over this issue; and, obviously, this A  
7 and B issue, in fairness to the Commission and its  
8 staff, I mean this is not the first pipe case that we  
9 have had. I have to say, in reading all of this, I  
10 thought that it is interesting that I have been  
11 through all these pipe cases and I don't ever remember  
12 -- I didn't even know there was an A and B. I was  
13 trying to sort out how does it relate to the ASTM  
14 standards, or the API's five standards, or any of  
15 these others?

16 Having been through a fair number of pipe  
17 cases, I had never had any attention ever brought to  
18 this issue of A versus B, so I don't think that I am  
19 alone in saying this was new to us, and I think that  
20 that is part of the reason why nobody asked for data  
21 separately on Grade A versus B because,  
22 notwithstanding how many cases we have done on  
23 standard line OCTG, everything else has not  
24 historically been an issue in these pipe cases to my  
25 recollection.

1           MR. BARRINGER: I am very sympathetic since  
2 I have probably been through as many piping-tube cases  
3 as you have, and I did not realize that it was an  
4 issue until this case.

5           I think part of it may be, and again this is  
6 speculation, but a lot of what I did was Japanese  
7 cases, Brazilian cases. I think they may have been  
8 selling primarily Grade B, so it didn't become an  
9 issue.

10           COMMISSIONER HILLMAN: Right. I appreciate  
11 those responses, thank you.

12           CHAIRMAN KOPLAN: Commissioner Lane.

13           COMMISSIONER LANE: Mr. Barringer, whatever  
14 else you think I need to know, I would like for you to  
15 put it in your post-hearing brief without my asking  
16 any questions. Thank you.

17           (Laughter)

18           MR. BARRINGER: I certainly will,  
19 Commissioner Lane. I am thinking about writing a  
20 four-volume book on every aspect of the Chinese pipe  
21 and tube industry.

22           CHAIRMAN KOPLAN: Thank you. Let me see if  
23 there any other questions from the dais. It doesn't  
24 appear so.

25           Ms. Mazur, does the staff have questions. I

1 understand the staff does intend to submit some  
2 questions of a technical nature to the parties on  
3 Monday, and it can include additional questions from  
4 Commissioners. But I also understand that you do have  
5 questions of a non-technical nature that even we could  
6 understand now.

7 MS. MAZUR: Actually, Mr. Chairman, they  
8 have been covered I think fairly sufficiently for  
9 today. But we will be following up to both sides with  
10 additional questions, hopefully short and sweet, on  
11 Monday.

12 CHAIRMAN KOPLAN: Thank you.

13 MS. MAZUR: Other than that, staff has no  
14 questions.

15 CHAIRMAN KOPLAN: Thank you for that and  
16 also thank you for all of your help to us in this  
17 investigation today. We very much appreciate it.

18 Mr. Schagrin, before I indicate how much  
19 time everybody has. Mr. Barringer, you have three  
20 minutes left from your direct presentation. Mr.  
21 Schagrin, you have 14 minutes left.

22 Does either side have rebuttal?

23 MR. SCHAGRIN: First, we have no questions,  
24 Chairman Koplan. I knew you were going to ask me  
25 that. We have no questions of this panel, so they can

1 be dismissed --

2 CHAIRMAN KOPLAN: Okay.

3 MR. SCHAGRIN: -- unless you want me to  
4 write in.

5 CHAIRMAN KOPLAN: So the next step is Mr. --

6 MR. SCHAGRIN: Okay. But --

7 CHAIRMAN KOPLAN: He didn't say summarily  
8 dismissed.

9 MR. SCHAGRIN: It is not Communist China. I  
10 didn't say summarily executed. I said dismissed. So,  
11 yes, we do have rebuttal, Chairman Koplan.

12 CHAIRMAN KOPLAN: You do?

13 MR. BARRINGER: We do as well, and Mr.  
14 Porter will do it.

15 CHAIRMAN KOPLAN: Okay. Well, let me excuse  
16 the panel and we will go to rebuttal.

17 (Pause)

18 I thought you had done so well this morning,  
19 Mr. Schagrin, when you left 14 minutes on the table.  
20 Are you about to undo all that?

21 MR. SCHAGRIN: I know you asked about  
22 rebuttal and I know that there is also a closing  
23 statement.

24 CHAIRMAN KOPLAN: No, that you get.

25 MR. SCHAGRIN: But I don't mind. If will

1 help the Commission ease the time burden, I wouldn't  
2 mind mixing the two and just doing rebuttal and  
3 closing statement simultaneously and not using the  
4 total amount of time.

5 CHAIRMAN KOPLAN: I like the last part, but  
6 why don't you do the rebuttal and then he will do his;  
7 and then we will go to closing, which is the way they  
8 do it.

9 MR. SCHAGRIN: All right, that's fine.  
10 Thank you very much.

11 REBUTTAL

12 MR. SCHAGRIN: First, before I turn things  
13 over to Professor Blecker, I want to compliment the  
14 last panel's only industry witness, Mr. Coibion.  
15 First, because he spent the first 15 years of his  
16 career working for LaBarge, which is not only probably  
17 the largest barge and line-pipe distributor in the  
18 United states, but Pierre LaBarge is a friend of mine.  
19 And just as an aside, kind of five degrees of  
20 separation, Pierre LaBarge would have been sitting  
21 right behind where I am sitting now on September 11th,  
22 unfortunately the day we were here with you all.

23 So we have life-long bonds, as I think I do  
24 with several of the commissioners having unfortunately  
25 been here. But I thought he answered the questions --

1 even though he has only been in any work for another  
2 large line-pipe producer, he answered all the  
3 questions to the best of his ability and he filled you  
4 all in on what he knew.

5 And the fact that there was nobody here from  
6 China and Mr. Barringer had to say he knew nothing  
7 about the Chinese pipe and tube industry, I think that  
8 was very problematic for the kind of record we were  
9 able to develop in this case, and it was unfortunate.  
10 But because really Professor Prusa gave their  
11 arguments, I think it is only appropriate that  
12 Professor Blecker give some rebuttal and point out  
13 some of the economic issues.

14 MR. BLECKER: Thank you, Mr. Schagrin.  
15 Obviously, there is much in Dr. Prusa's testimony that  
16 I would dispute. But I promised the Commission that I  
17 will save most of it for the post-hearing response;  
18 and given the late hour, I will confine myself here to  
19 two related issues concerning demand: the so-called  
20 laws of economics and another one of those  
21 elasticities.

22 I think that what I am about to say, with  
23 all due respect to Tom Prusa because we did go to  
24 graduate school together and he is an excellent  
25 economist; and, as he said, we all had to do this

1 briefing on very short notice. But I believe that in  
2 that demand curve he was drawing and his use of the  
3 overall demand elasticity, we have to know which  
4 elasticity we are talking about here: the overall  
5 demand elasticity from the Staff Report, that he is  
6 making a very elementary error in misunderstanding  
7 what that means in the models that the Commission's  
8 staff had developed over the years. I am talking  
9 about the compass models that had been used in anti-  
10 dumping cases, the tariff-rate quota model, which I  
11 used in this investigation, and any such model.

12 In all of these models, the overall demand  
13 elasticity is not the elasticity of demand for the  
14 domestic product. It is the elasticity of demand for  
15 all of the like products, domestic and imports  
16 together. The best to say that is that it would be  
17 the responsiveness of the quantity of apparent  
18 consumption, total consumption in the U. S. market, to  
19 the average price of all goods, both imported and  
20 domestic, from all sources.

21 You see the idea in these models -- and I  
22 also teach some, so I am used to getting up and  
23 walking around but I will try to do this sitting down.  
24 The idea in these models is that: first, the consumers  
25 make a choice about how much to buy of the product and

1 that is based on market conditions and the price of  
2 the product. Then they decide how much to buy of  
3 domestic versus subject imports, or non-subject  
4 imports, okay.

5 But when they get to that second level of  
6 choice as to where to source the product from:  
7 domestic or imports, we are talking about a different  
8 elasticity of demand, which is higher. It is always  
9 higher because it is based on an interaction of the  
10 overall demand elasticity and what is called in the  
11 Staff Report, the elasticity of substitution. How  
12 easily the consumers can switch between one type of  
13 product, domestic or import, and the other based on  
14 price.

15 The reason that the U. S. elasticity of  
16 demand for domestic product is higher than the overall  
17 demand elasticity, and it always is, is because there  
18 is an elasticity of substitution. And I agree that  
19 the elasticity of demand for domestic product is  
20 higher than for overall demand, or apparent  
21 consumption. It has to be. The difference is the U.  
22 S. history of substitution. This is well known. I  
23 will provide the graphs and the equations in my post-  
24 hearing response.

25 First of all, he was just using the concept

1 wrong. Now as to the number, and here I do  
2 respectfully have a different point of view from the  
3 staff, I think the overall demand elasticity of .75 to  
4 one is simply too high. Because that should show us  
5 the responsiveness of apparent consumption quantities  
6 to average prices of everything, and they just don't  
7 respond that much.

8           For example, between the first half of '04  
9 and the first half of '05, the average unit value for  
10 all products, that is apparent consumption, went up 36  
11 percent. That includes the Chinese imports, the other  
12 imports and the domestic. The quantity demand did go  
13 down. Yes, there is a law of economics, of course,  
14 the quantity went down.

15           But it went down only 15 percent, that is an  
16 elasticity of less than half, less than 0.5. If the  
17 elasticity was really 0.75 to one, then the quantity  
18 of apparent consumption should have gone down between  
19 -- where are my numbers. Well, whatever is three-  
20 quarters of 36. The hour is late. I think it is 27  
21 and 36 percent and, of course, that quantity of  
22 apparent consumption did not go down nearly that much.

23           So we need to be talking about the right  
24 elasticity for the right concept, and I think the data  
25 of record on the overall demand clearly support a

1 lower elasticity. Yes, this is important because it  
2 does go into my estimates of the injury and of what  
3 the effects of the remedy would be. I think it is  
4 very important that we use elasticities that are not  
5 just conjured up or convenient to an argument, but  
6 that are based on the behavior that we observe.

7           And I would just say that if the Respondents  
8 think that the elasticity of demand for the domestic  
9 product is higher than that, then they must be  
10 agreeing with us that there is a high elasticity of  
11 substitution between domestic and foreign products,  
12 particularly the Chinese products where we have seen  
13 very large changes in quantities demanded in response  
14 to these price gaps that we have been talking about.

15           The last thing that I want to talk about  
16 tonight is this issue and a couple of the  
17 Commissioners -- I think Commissioner Hillman towards  
18 the end asked a question about this supposed fall in  
19 the pipe intensity of construction activity. Well, as  
20 Dr. Prusa admitted in his answer, he was using total  
21 of construction activity. But as all of our industry  
22 witnesses, and your Staff Report say: that is the  
23 wrong metric for the downstream demand for this  
24 product. Housing or residential construction uses  
25 very little of standard pipe and that has been in

1 every investigation since 1992, which is when I  
2 started doing this.

3 So the right metric is the ratio of standard  
4 pipe apparent consumption quantity to some index of  
5 non-residential construction. As I said earlier, you  
6 can construct that out of the data in Figure 4 of my  
7 pre-hearing submission. That if you just take the  
8 ratio of one series to another, it is not going to  
9 have anything like that big downward trend that Dr.  
10 Prusa thinks he is going to find.

11 So what does his data show? All it shows is  
12 what we all know. Over the last several years, there  
13 has been a housing boom, some call it a bubble, so  
14 residential construction is up. But non-residential  
15 construction has grown very slowly since the recession  
16 four years ago. So all his index is showing you, in  
17 effect, is the rising proportion of residential to  
18 non-residential construction. It is not telling you  
19 anything about the demand for the subject product.

20 Thank you.

21 MR. SCHAGRIN: Thank you, Dr. Blecker.

22 Yes, Mr. Barringer said something very  
23 interesting to me during his opening comment this  
24 morning. I think it was a reference to all of our  
25 witnesses who were here to tell you about what is

1 going on in this industry. He said: Well, as they say  
2 in advertising, if you want to get the message across,  
3 just say it five times.

4 Well, I think, you know, he was thinking  
5 about the way he practices before this Commission,  
6 which is: If you are going to create things, if you  
7 just say it over and over again, maybe it will sink  
8 into the Commission. And the problem is that, while I  
9 think our witnesses did a great job, you know you have  
10 got a brief from the other side, you have got their  
11 testimony, you had an excellent slide presentation.  
12 If you don't read carefully, and I suspect you will,  
13 the post-hearing briefs, you may actually start to  
14 believe some of the things that the Respondents say  
15 over and over.

16 Let me give you an example, and I think it  
17 is central to their entire case. Their entire case  
18 against the domestic industry was based on this theory  
19 that the imports from China haven't really been  
20 increasing dramatically and having been causing the  
21 injury to the domestic industry because you have to  
22 lag the imports from China by six months. So whatever  
23 comes in now, whatever happens to the domestic  
24 industry happened six months ago.

25 The first time in their brief, they say four

1 to six months.

2 CHAIRMAN KOPLAN: Excuse me for just one  
3 second.

4 MR. SCHAGRIN: Sure.

5 CHAIRMAN KOPLAN: Mr. Barringer, you say  
6 that you can prepare and I want you to know that you  
7 are not on the clock on rebuttal, so I am going to  
8 expand that time so that you can adequately respond to  
9 Mr. Schagrin.

10 Go ahead, Mr. Schagrin.

11 MR. SCHAGRIN: That is perfectly fine,  
12 Chairman Koplan. And I don't mean to offend him. As  
13 I point these things out and you are the best stickler  
14 on this Commission. It has been great practicing  
15 before you for ten years.

16 By the way, you will probably get nine  
17 years, Commissioner Aranoff, because everybody gets an  
18 extra couple of years before they are replaced.

19 But back to my comments. I think you will  
20 understand the gravatas and that is: The very first  
21 time in their briefs when they introduce this issue of  
22 import lag, they say four to six months based on  
23 questionnaire responses. The next six times, it said  
24 that it is always just six months and all their data  
25 is six months.

1                   Now, you would probably believe that that is  
2 what the importer questionnaire responses say. While  
3 I can't tell you exactly what they say, we have a  
4 large number here. I will give you a hypothetical: If  
5 we had a 100 importer questionnaire responses, would  
6 you be surprised if somebody said that we ought to use  
7 six months if: three of them said six months, three  
8 said five months, thirty said four months, forty said  
9 three months, and the other twenty said one or two  
10 months?

11                   Would you think that it would be  
12 statistically reasonable, reasonable for an economist.  
13 or reasonable for an attorney practicing before this  
14 Commission, to pick the most extreme and then say that  
15 it is based on the questionnaire responses?

16                   You can give other reasons for using it and  
17 that is fine. But to say that it is based on the  
18 importer questionnaire responses, well, I can you that  
19 we will give you a chart with our post-hearing brief.  
20 You know the real data when you weigh everything, and  
21 I think that is a reasonable thing to do when you have  
22 a lot of responses and the same question is asked of  
23 everybody, and you get a large variety of answers, is  
24 that it falls in the middle. It is in the three to  
25 four month period. It makes a difference in their

1 analysis.

2 But I am just pointing out that a lot of the  
3 arguments from Respondents are based on -- there is a  
4 range of data points in the questionnaire responses,  
5 in the Staff Report, in pressed-end pipe, et cetera,  
6 et cetera. But we are going to pick the point -- and  
7 I asked Professor Blecker if the economist did, and he  
8 said: Yes, they did. It is called data mining. You  
9 know I just believe that you should use the actual  
10 data that is fairest and then make your presentation.  
11 Weigh it the way you want. We are all advocates.

12 There is something going on with what Dr.  
13 Blecker said about utilizing the data on the  
14 relationship between price and demand. Because, after  
15 all, what they have told you is that the problem is  
16 not imports from China. The problem is a decrease in  
17 demand caused by price increase, and I addressed that  
18 a little bit earlier.

19 Then what we were told at the beginning of  
20 the presentation today by Mr. Barringer is: In order  
21 to prepare all this data, that is fine. Before the  
22 hearing, we had to use other data sources, but we have  
23 checked and everything correlates to the Staff Report.

24 As the charts we are going through, I am  
25 wondering and everything is flipping through and we

1 are all getting tired, and one of the main points that  
2 was being made is: Between '03 and '04, prices  
3 declined and demand increased; and then in '04 to '05,  
4 they went up and demand declined.

5 And I said I think that I am pretty familiar  
6 with this record. How could anybody say, using any  
7 data, that prices declined between '03 and '04? So I  
8 looked at the data in the Staff Report and it shows  
9 that averaging of values went up 35 percent. And I  
10 looked at different prices and they all go up. But,  
11 for this product, and I don't know that any of my  
12 clients report this, so maybe this is what happened to  
13 import prices even though those show, at least in the  
14 Staff Report, they went up and, you know, his argument  
15 is premised about a price decline from '03 to '04.

16 CHAIRMAN KOPLAN: Your time has expired.

17 MR. SCHAGRIN: The fourteen minutes? Okay,  
18 thank you very much, Mr. Chairman.

19 CHAIRMAN KOPLAN: Mr. Barringer.

20 MR. BARRINGER: I am going to be  
21 extraordinarily brief, and then we can move to opening  
22 statements. It's been a long day.

23 CHAIRMAN KOPLAN: Are you going to do a  
24 closing?

25 MR. BARRINGER: Well, I don't know, if we

1 stay here long enough maybe it will be an opening  
2 statement. You got a hearing tomorrow.

3 I have just two very, very brief comments.  
4 I very much appreciate the depth of knowledge that  
5 Commissioner Lane wanted me to have about the Chinese  
6 industry and I will do my best to get there. My point  
7 was simply that I don't know each company and which  
8 produces what and which has this facility and that  
9 facility, and so forth. If it is relevant, we are, of  
10 course, happy to do it. It is not the level of depth  
11 of knowledge that I usually expect, particularly with  
12 a large industry. So that is just to respond to that  
13 point.

14 In terms of what is an allegation of  
15 manipulation of the data or misdistortions or  
16 whatever, my record with the Commission speaks for  
17 itself. What we have submitted in the past to the  
18 Commission and in this investigation to the  
19 Commission, I think speaks for itself. We have the  
20 utmost respect for the Commission, and we certainly  
21 hope that the Commission respects that we do not  
22 attempt to misuse, mislead, or otherwise distort the  
23 facts.

24 Thank you for your patience during the very  
25 long day.

1 CHAIRMAN KOPLAN: Thank you, sir.

2 We will now go to closing remarks.

3 CLOSING REMARKS

4 MR. SCHAGRIN: Does it matter where they  
5 come from, Mr. Chairman?

6 CHAIRMAN KOPLAN: No, it doesn't.

7 MR. SCHAGRIN: Okay.

8 CHAIRMAN KOPLAN: Well, actually, I might  
9 suggest a place, but that's all right. Go ahead.

10 MR. SCHAGRIN: Comment well taken.

11 The data on the record about the surge in  
12 Chinese imports is undeniable. Those imports went  
13 from 10,000 tons in 2002, to 90,000 tons in 2003, up  
14 to 266,000 tons and up to 185,000 tons in the first  
15 half of this year; and the data that we have for July  
16 and August show that they continue at 30,000 tons a  
17 month.

18 The SIMA data through September shouldn't be  
19 used as an indication that imports from China are  
20 declining rapidly. The fact is that that SIMA data is  
21 only data through about the first 12 or 13 days of  
22 this months. And I am sure that there is no data for  
23 the Port of New Orleans because it has been closed,  
24 and that was a major entry port. So it is going to  
25 have to find other homes and we will have to see how

1 that data winds up.

2 We do know that there are a lot of offers  
3 being made and that from everything that we can tell,  
4 imports from China continue unabated at rates of 30 to  
5 35,000 tons a month. And even since this case was  
6 filed, we have a number of very major importers making  
7 offers in August and September for November-December  
8 delivery.

9 That this increase in imports was a  
10 significant cause of the volume factors' impact on the  
11 domestic industry is undeniable. The U. S. industry  
12 lost a significant share of the U. S. market, over 10  
13 points; it has had massive production and shipment  
14 losses in the range of 25 to 30 percent, and a loss of  
15 400 workers. I believe that most of those workers  
16 have not gone to other parts of mills, but are just  
17 plain out on the street, and we will get you that  
18 information later.

19 When you look at the pricing effects and the  
20 profitability effects, I point out that profits have  
21 declined, that there is evidence of price suppression,  
22 and we will address that further in our post-hearing  
23 brief, and that the returns for the industry, at this  
24 time, given the cost of capital, which is increasing  
25 significantly and with operating margins in the 6-1/2

1 percent range, net margins in the 4 percent range,  
2 after interest expenses, are unacceptable for an  
3 industry in this business today and will lead to  
4 significant divestment in this industry.

5           There was abundant evidence on the record  
6 today that executives of these pipe companies are  
7 considering closing down mills in the near future. I  
8 think without question if this Commission were to  
9 render a negative determination, a number of mills  
10 will be closed with massive job losses. It is not an  
11 attempt to scare the Commission. You will make your  
12 decision based on the record.

13           The fact is that those job losses, those  
14 plant closures, are related to declining domestic  
15 consumption. They are not related to other issues;  
16 they are not related to lack of productivity by the  
17 domestic mill. They are related to massive surges in  
18 imports from China. If you decide that you need to  
19 look at the threat case, the threat case is a very  
20 strong case. There is abundant excess capacity in  
21 China to continue large shipments to the United  
22 States. There is massive price underselling; there is  
23 a high degree of substitutability between the Chinese  
24 product and the domestic product, be it Grade A or  
25 Grade B. We will address that further in our post-

1 hearing brief.

2 And the only evidence on the record of what  
3 has been happening in the last few months demonstrates  
4 that the information on projected imports into the  
5 United States from the Chinese industry for the second  
6 half of 2005 is woefully understated, whether it is  
7 understatement by the people who answered the  
8 questionnaires, or it is a lack of information from  
9 Chinese producers who didn't file questionnaires.

10 So the threat case is very strong. We would  
11 ask you to make an affirmative determination, and we  
12 would ask you to carefully consider the remedy, and we  
13 very much appreciate your patience today. It was a  
14 very long, very tiring hearing. I realize it was your  
15 second this week, only my first. But we thank you  
16 very much for paying attention to us today.

17 Thank you very much.

18 CHAIRMAN KOPLAN: Mr. Barringer? Are you  
19 giving up?

20 MR. BARRINGER: I have run out of energy and  
21 I am thinking about Commissioner Lane's questions that  
22 I have to answer.

23 MR. PORTER: Commissioner Koplan, the hour  
24 is very late and I am going to try to be very brief in  
25 the closing statement.

1           At the beginning of the day, Mr. Schagrin  
2           implored the Commission to listen less to the lawyers  
3           and economists and more to the large number of  
4           industry representatives that came here today.

5           Well, I followed Mr. Schagrin's suggestion.  
6           But what I found was that the presentation by the  
7           industry representatives actually supported the  
8           defense of the Chinese Respondents. I say this based  
9           on both what the industry representatives said and  
10          what they did not say. As to the actual direct  
11          testimony of the industry representatives, I was most  
12          struck by the verb tense that they used in the  
13          discussion of alleged material injury.

14          When the industry representatives used the  
15          past tense, they actually described quite favorable  
16          indicators of health. For example, a couple of  
17          companies testified that they have been able to obtain  
18          capacity utilization of rates of 75 to 100 percent.  
19          Their direct testimony about adverse conditions,  
20          however, used the future tense. For example, two  
21          companies stated that they will have to shut down  
22          production if they do not get relief.

23          Mr. Chairman, the verb tense that they used  
24          is telling. It indicates that the industry  
25          representatives actually agree with Commissioner

1 Pearson's observation that, at most, this is a threat  
2 case. There is really little to no evidence that the  
3 domestic industry is suffering material injury during  
4 the period examined by the Commission. And whether  
5 there really is a threat of material injury, what I  
6 found most interesting is what the industry  
7 representatives did not say.

8 In their direct testimony, the industry  
9 representatives did not deny that pipe prices moved in  
10 tandem with changes in the prices of hot-rolled steel.  
11 The industry representatives did not deny that they  
12 are consistently able to increase their pipe prices to  
13 cover increases in hot-rolled costs; and that such  
14 increases happened at virtually the same time as when  
15 the hot-rolled price increases.

16 And the industry representatives did not  
17 deny that the profitability for particular time  
18 periods depends on comparing current prices to the  
19 cost of hot-rolled that was purchased several months  
20 earlier. What does this mean? This means that the  
21 industry representatives did not deny the three  
22 factual predicates that form our basis for this chart:  
23 The Future Profitability of the Industry.

24 Because we already know the cost of the hot-  
25 rolled steel that they purchased, because we already

1 know the pipe price increases that they have  
2 announced, we are able to, with a fair degree of  
3 certainty, predict their future profitability for the  
4 rest of the year; and that this chart indicates the  
5 profits are robust indeed.

6 My last point, Mr. Chairman, concerns the  
7 testimony of one of the distributor customers, Master  
8 Halco. As I listened to the exchange between  
9 Commissioner Hillman and Mr. Miller, I had a bout of  
10 deja vu all over again. Having read the transcript  
11 from the 2002 anti-dumping proceeding, I note that  
12 Master Halco gave virtually the same testimony then as  
13 it did today. Specifically, three years ago, Master  
14 Halco told the Commission that if the Commission did  
15 not reach an affirmative determination and with strict  
16 pipe imports from China, Master Halco would have no  
17 choice but to stop buying domestic pipe and switch to  
18 Chinese pipe.

19 Well, as everyone knows, the Commission did  
20 not make an affirmative determination. Yet, it  
21 appears from the testimony today that Master Halco  
22 still continues to buy domestic pipe. What does this  
23 mean? This means, in fact, because of longer lead  
24 time, because of the desire of customers for Grade B  
25 pipe, because of Buy America, there is and will be in

1 the future good, steady demand for domestic pipe.  
2 There is no basis for a finding of a threat of  
3 material injury.

4 Thank you, Mr. Chairman.

5 CHAIRMAN KOPLAN: Thank you. I want to  
6 thank everyone who participated in these proceedings  
7 with us today. I think when all is said and done that  
8 everyone had their day in court, so to speak.

9 Under Section 21 B of the Trade Act of 1974:  
10 Post-hearing briefs, statements responsive to  
11 questions and requests of the Commission and  
12 corrections to the transcript must be filed by  
13 September 21, 2005; final comments on market  
14 disruption, by September 29, 2005.

15 With that, this hearing is concluded.

16 (Whereupon, at 7:26 p.m., the hearing in the  
17 above-entitled matter was concluded.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Circular Welded Non-Alloy Steel  
Pipe

**INVESTIGATION NO.:** TA-421-6

**HEARING DATE:** September 16, 2005

**LOCATION:** Washington, D.C.

**NATURE OF HEARING:** Hearing

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

**DATE:** September 16, 2005

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

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

**SIGNED:** Carlos Gamez  
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

**SIGNED:** Christina Chesley  
Signature of Court Reporter