

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
CERTAIN SEAMLESS CARBON AND ALLOY) Investigation No.:
STEEL, STANDARD LINE, AND PRESSURE) 731-TA-707-709
PIPE FROM ARGENTINA, BRAZIL AND GERMANY) (Second Review)

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Thursday,
 February 8, 2007

Room 101
 U. S. International
 Trade Commission
 500 E St., 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
 DANIEL R. PEARSON, Chairman, Presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

DANIEL R. PEARSON, CHAIRMAN
 SHARA L. ARANOFF, VICE CHAIRMAN
 JENNIFER A. HILLMAN, COMMISSIONER
 DEANNA TANNER OKUN, COMMISSIONER
 CHARLOTTE R. LANE, COMMISSIONER
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Staff:

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Congressional Appearance:

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State Government Appearance:

THE HONORABLE LINDA COLEMAN, STATE SENATOR
District 20, State of Alabama

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MICHAEL RAMSEY
Product Manager, Seamless Tubular Products

On behalf of Dixie Pipe Sales, LP:

JAMES DURHAM
Chief Executive Officer

On behalf of Red Man Pipe and Supply:

LARRY BINDER
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On behalf of Steelworkers of America:

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Washington, D.C.

On behalf of Siderca S.A.I.C.:

ROLAND BALKENENDE
General Manager, Tenaris Global Services USA

On behalf of Benteler Steel and Tube Corporation:

MICHAEL HERMINGHAUS
President

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P R O C E E D I N G S

(9:30 a.m.)

1
2
3 CHAIRMAN PEARSON: Good morning. On behalf of the
4 U.S. International Trade Commission I welcome you to this
5 hearing on Investigation Number 731-TA-707-709, Second
6 Review, involving Certain Seamless Carbon and Alloy Steel,
7 Standard Line and Pressure Pipe from Argentina, Brazil and
8 Germany.

9 The purpose of these five year review
10 investigations is to determine whether revocation of the
11 antidumping duty orders covering certain seamless carbon and
12 alloy steel, standard line and pressure pipe from Argentina,
13 Brazil and Germany would be likely to lead to continuation
14 or recurrence of material injury to an industry in the
15 United States within a reasonably foreseeable time.

16 Notice of investigation for this hearing, list of
17 witnesses, and transcript order forms are available on the
18 public distribution table.

19 I understand that parties are aware of the time
20 allocations. Any questions regarding the time allocations
21 should be directed to the Secretary.

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

24 Parties are reminded to give any prepared
25 testimony to the Secretary. Please do not place testimony

1 directly on the public distribution table.

2 All witnesses must be sworn by the Secretary
3 before presenting testimony.

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

8 Madame Secretary, I have a couple of preliminary
9 matters.

10 First, I'd like to recognize our new Commissioner,
11 Irving Williamson, who was sworn in at 10:00 o'clock
12 yesterday morning.

13 (Applause).

14 Next, I recognize Commissioner Hillman.

15 COMMISSIONER HILLMAN: Thank you, Mr. Chairman.

16 As many of you know my term as a Commissioner will
17 also be coming to an end on the 23rd of February. I'm
18 informed by the Secretary's office that this is my 256th and
19 last hearing that I will participate in as a Commissioner
20 here. So I did want to take just a minute to say a few
21 thanks, and also to welcome Commissioner Williamson. I had
22 the pleasure and privilege of serving with Commissioner
23 Williamson when we both served in the General Counsel's
24 Office at USTR and I know the tremendous depth and breadth
25 of trade experience that he will bring here to the

1 Commission.

2 I did want to also thank, however, our
3 professional staff for this hearing and for the 255 that
4 have come before it, for the tremendous work that they do
5 hearing in and hearing out to make sure that I am as ready
6 as I can be and that the rest of the agency is ready to make
7 these hearings as productive and informative as they have
8 done, so my thanks to the terrific staff here.

9 I also want to thank counsel. You all work very
10 hard at all of these hearings to write us good briefs and to
11 do a good job preparing your witnesses. To the counsel that
12 are here and again to those that have come before, I thank
13 you as well for the professional way in which you have
14 always approached these hearings.

15 I'm extremely grateful to say thank you to my
16 colleagues. I think I have served with 11 different
17 Commissioners over the course of my time here. I know each
18 of you has brought your own perspectives, your own
19 intellect, and your own hard work to this job and it has
20 been a privilege to serve with each and every one of you.

21 A special thanks to Commissioner Okun with whom I
22 have served the longest and had the honor of serving as her
23 Vice Chairman when she was the Chairman of the Commission.
24 It was truly a privilege for me and I thank you.

25 And perhaps last and often the most unheralded, I

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1 want to thank my personal staff. I have been extremely well
2 served throughout my entire time here by my lawyers, Bill
3 Cane and Stewart Wiser, who have been with me from day one,
4 who have used their tremendous analytical skills and
5 beautiful writing skills I think to improve every Commission
6 document that has come along our way. I would want to thank
7 them.

8 To Michael Anderson, my economist, who made it
9 through about 90 percent of my term here and then got lured
10 away to head one of our Office of Industries Divisions, who
11 was always able to translate even the most difficult
12 econometric models into terms that even I could understand.
13 I thank him for that.

14 And at the center of it all has been my absolutely
15 fantastic confidential assistant, Joyce Relick who has kept
16 my office running like clockwork, day in and day out, but
17 who has also contributed so much to the agency as a whole.
18 So for her wit, her grace, her tremendous work ethic, and
19 enthusiasm I thank Joyce Relick as well.

20 Mr. Chairman, really, it has been an honor and a
21 privilege to be here for these eight and a half years, and I
22 thank you and my colleagues for their indulgence this
23 morning. Thank you.

24 (Applause).

25 CHAIRMAN PEARSON: Commissioner Hillman, permit me

1 just to say that although our analytical approaches
2 sometimes were different, perhaps because of that I learned
3 so very much from you and I appreciate your counsel and
4 friendship in these past three years in which we've worked
5 together, so I will miss you. Thank you very much.

6 COMMISSIONER HILLMAN: Thank you.

7 CHAIRMAN PEARSON: Do any other Commissioners have
8 comments?

9 COMMISSIONER OKUN: Mr. Chairman?

10 CHAIRMAN PEARSON: Commissioner Okun.

11 COMMISSIONER OKUN: We're going to have the
12 opportunity later to roast and toast Commissioner Hillman so
13 I will save many of the comments that I'd like to make for
14 that appropriate occasion, but I don't want to let the day
15 go by to just reflect on the fact that as Commissioner
16 Hillman noted, you're the last of the Commissioners that
17 were here when I arrived. I have benefitted from your
18 intellect, your energy, your enthusiasm. I think for all of
19 you that are in the audience, the fact that Commissioner
20 Hillman is here today when many Commissioners, when someone
21 is appointed and confirmed, would have walked the next day
22 and said I really don't have to do anything else,
23 Commissioner Hillman will be here, I'm sure, until Friday
24 the 23rd at 7 p.m. working as hard as she has the entire
25 time she's been here.

1 The Commission will miss her, I will miss her, and
2 I should note that we are also lucky that her staff are
3 remaining here, but we will certainly miss what she has
4 brought and the leadership she has brought. Also again to
5 say a special thank you for the time you served as Vice
6 Chairman. I think we accomplished a lot, and a lot of that
7 was because of how much energy and enthusiasm you brought to
8 that and your willingness to take on any task and do it
9 better than anyone else you could pick.

10 There are many other things I'd like to say, but I
11 will hold that until another time when I can go into more
12 detail.

13 But thank you, Mr. Chairman, for allowing me to
14 make those few remarks this morning, and thank you,
15 Commissioner Hillman. We wish you all the best.

16 CHAIRMAN PEARSON: Thank you, Commissioner.

17 Commissioner Williamson?

18 COMMISSIONER WILLIAMSON: First I want to thank
19 you for your warm welcome and thank the staff for their warm
20 welcome to myself here. I've known all my career, the 30
21 years I've been in trade policy, how important the
22 Commission is and it's really a great honor for me to have a
23 chance to work here with the staff and to continue to make
24 it a strong important agency.

25 I also just want to commend Commissioner Hillman

1 because I worked for her at USTR and it was a wonderful
2 time, and I'm glad I had at least the opportunity so that we
3 could overlap on one hearing here.

4 Thank you.

5 CHAIRMAN PEARSON: Seeing no further comments from
6 the dais, let's move forward to the reason that we've all
7 come here today which is of course to recognize and
8 celebrate Commissioner Okun's birthday.

9 (Laughter).

10 Let the record note that I at least am able still
11 to remember when I was 29.

12 (Applause).

13 Madame Secretary, do you have any preliminary
14 matters? I think we might have exhausted them up here.

15 MS. ABBOTT: No, Mr. Chairman.

16 CHAIRMAN PEARSON: Very well. Please announce our
17 State Government witness.

18 MS. ABBOTT: Our first speaker will be the
19 Honorable Linda Coleman, State Senator from District 20,
20 State of Alabama.

21 CHAIRMAN PEARSON: Welcome Senator Coleman. We
22 don't always keep our elected officials waiting quite that
23 long. I hope you were not unduly inconvenienced by our
24 merriment.

25 SENATOR COLEMAN: I wasn't. Thank you, and good

1 morning. I was sort of enjoying the dialogue in the
2 background there.

3 First of all let me say thank you for the
4 opportunity to present, and thank you and the staff for the
5 warm hospitality this morning.

6 My name is Linda Coleman and I am a State Senator
7 from Birmingham, Alabama. I'm here today to urge the
8 Commission to maintain antidumping duties on carbon and
9 alloy seamless, standard line and pressure pipe from
10 Argentina, Brazil and Germany.

11 Many of my constituents work at the U.S. plant in
12 Fairfield, Alabama where they make this very high and other
13 end state of the art products. I must say there is a lot of
14 concern among workers in my state about the economy, our
15 trade policies, and the future of manufacturing in this
16 country.

17 At times it seems like from their view of the
18 world what they see every day around them in terms of what's
19 happening to the jobs in their communities and opportunities
20 are wholly overlooked here in Washington. We hear a lot of
21 talk about the economy and how Americans are supposedly
22 doing well. We see commentators who are surprised by the
23 polling data about the pessimism of the economy and where we
24 are headed. But again, the pessimism doesn't surprise me
25 because once you're outside of the Beltway there are

1 countless American cities and towns like my home town in
2 Birmingham that was built around manufacturing and when our
3 manufacturing sector is hurting like it is now, those places
4 hurt too.

5 We have three million, three million fewer
6 manufacturing jobs today than we did in 2000. After almost
7 four years of a so-called recovery, it is becoming
8 increasingly clear that those jobs are never coming back.
9 What's worse, there is all too often a sense among our
10 workers and our citizens that policymakers don't care
11 whether the jobs come back or not. I just don't understand
12 why.

13 Can't they see that for many Americans
14 manufacturing jobs represent their best chance to be a part
15 of the middle class? Can't they see that those jobs, once
16 they are gone, hard working men and women who once held them
17 find it almost impossible to maintain their standard of
18 living? And this only furthers a lifestyle of substandard
19 living conditions that also is a burden on our economy.

20 Can't they see that when those plants close and
21 workers are laid off, those lost jobs affect everyone in
22 nearby communities and local economies? Can't they see and
23 understand that for our young men and women when they look
24 around and they see no prospect for themselves or their
25 children, that too many of them just give up on their

1 futures?

2 To me this sends a message that we don't care
3 about our own.

4 An African-American proverb once said that it's a
5 lazy man who will not till his own field.

6 But fortunately the picture is not entirely
7 negative. After years of heavy job losses at the steel
8 mills across the Birmingham area, primarily because of
9 dumped and subsidized imports, the U.S. Steel Fairfield
10 plant has emerged as a solid support for our local economy.
11 Thanks to antidumping orders that have limited sales of
12 unfair imports, the men and women of Fairfield have had a
13 chance to compete on a level playing field and they are
14 taking advantage of that.

15 Their successes have helped not only the workers
16 at the Fairfield plant but the entire community that depends
17 upon this plant.

18 That's why I'm here today. We need the orders at
19 issue to remain in place.

20 Now as I understand it, and you have to decide
21 whether revocation of the orders on Argentina, Germany and
22 Brazil would lead to a continuation or recurrence of
23 material damage or injury to domestic producers and workers.
24 In other words, the issue is whether to allow a return of
25 the imports that are proven to be traded unfairly will harm

1 American workers and producers.

2 I want to be honest with you today. I don't
3 understand how you could possibly decide this question in
4 the negative, because time after time over the past few
5 decades we have seen steel workers lose their jobs and steel
6 plants close for good because of unfairly traded imports.

7 I can tell you horror stories of the effects of
8 downsizing and the eventual closing of the ANC plant near
9 Birmingham. The serious damage it has caused to the
10 communities, economy, to the lives of citizens in lost
11 wages, foreclosures on homes, the loss of medical care, and
12 the devastation to an area that is continuing to struggle to
13 survive in the wake of closed businesses, increased crime
14 and drugs, and where people feel like they are prisoners in
15 their own homes. It's kind of like a no man's land.

16 The very industry before you, the steel industry,
17 has been subjected to two different ways of demonstrated
18 dumping since 1995. It's conditions have improved thanks to
19 this relief, but I certainly cannot understand the logic of
20 saying you are going to subject an industry to unfair trade
21 and further harm as soon as it has gotten back on its feet.

22 I can tell you that we hear a lot of concern about
23 China in my state and its affect that it is having on
24 manufacturing. As I understand it, China is not subject to
25 trade orders before you today but in fact is the biggest

1 foreign shipper to this market.

2 I also don't understand that imports of this
3 product are at a historically high level right now. I guess
4 I just don't understand that if you have Chinese imports
5 already flooding this market, if you have imports in general
6 at record levels and taking the market share of the industry
7 and jobs that affect my constituents, why do we need to
8 allow more imports from these countries? And remember, we
9 are talking about unfair imports.

10 I'll be honest and tell you that the men and women
11 in my state, they just don't get it. They don't understand
12 this logic.

13 Let's give our industry a chance to compete in a
14 fair market and earn the returns they can generate in the
15 absence of unfair trade.

16 You have the power and the responsibility to
17 enforce our trade laws. So we ask that you use that power
18 to stand up for fair trade and market competition. Please,
19 don't force hard working Americans to compete with unfairly
20 traded goods.

21 If foreign companies want to compete in this
22 market, make them play by the rules. If they beat us fair
23 and square, that's one thing. But if they beat us unfairly
24 by cheating, the fault lies with policymakers who simply
25 don't care enough to enforce our laws.

1 I implore you, don't make this mistake and
2 maintain the orders at issue here today.

3 I want to thank you again for the opportunity to
4 come before you and present, to testify on behalf of the
5 citizens of Birmingham and of the great state of Alabama.

6 Thank you.

7 CHAIRMAN PEARSON: Thank you, Senator.

8 Does anyone have a question for Senator Coleman?

9 (No audible response).

10 CHAIRMAN PEARSON: Okay. Thank you very much.

11 MS. ABBOTT: Opening remarks in support of
12 continuation of the orders will be by James C. Hecht,
13 Skadden, Arps, Slate, Meagher & Flom.

14 CHAIRMAN PEARSON: Welcome, Mr. Hecht. Please
15 proceed.

16 MR. HECHT: Thank you and good morning.

17 The domestic industry before you today was also in
18 front of the Commission less than a year ago in the sunset
19 reviews involving Japan and three other countries. Since
20 that time the industry has enjoyed another good year buoyed
21 by a continued strong market and by the Commission's
22 decision last April to maintain orders against unfair trade
23 from Japan and Romania.

24 Since that time the three foreign industries
25 subject to the present reviews have a number of important

1 similarities to the Japanese producers the Commission
2 considered last year, particularly with respect to the
3 unquestioned quality of their product, their ability to
4 easily meet the most demanding market application, their
5 aggressive export orientation and their strong incentive to
6 return to this market if given the chance.

7 The facts of the present case are reasonably
8 straightforward. The domestic industry faces a steadily
9 shrinking market share in the face of exploding production
10 in China, and an unprecedented level of non-subject imports.

11 The domestic industry has become increasingly
12 confined to the highest end of the market at the same time
13 that Chinese and other non-subject imports are gaining more
14 and more acceptance for such uses each year.

15 The domestic industry has been able to achieve
16 profitability, even with reduced market share through a
17 strategy of focusing on high value uses and in the context
18 of a very strong market.

19 We would submit that the consequences of
20 revocation are equally clear. First, China's production,
21 exports and market acceptance will only increase as non-
22 subject imports continue to move up the value chain.
23 Second, the domestic industry will face direct and fierce
24 competition from unfair trade, that is from the subject
25 producers, in precisely the market areas it has relied upon

1 to retain a foothold and maintain profitability. Finally, a
2 return of such unfair trade would present the domestic
3 industry with an even smaller customer base and declining
4 financial performance across the board.

5 Under any scenario such a result would constitute
6 a likely recurrence of material injury. If a return of
7 unfair trade occurs in the context of weakening demand,
8 either here or abroad, the result could very well be
9 catastrophic injury.

10 Domestic producers are not the only ones who feel
11 this way. Please look carefully at the confidential record
12 and the very specific statements we cite from purchasers and
13 even foreign producers. These statements provide a
14 compelling assessment of what would happen if these orders
15 are revoked and make clear that there would be a material
16 negative impact on this market.

17 The other side will try to persuade you that an
18 industry with solid profit margins cannot be susceptible to
19 material injury. That is, of course, completely false under
20 the law.

21 In the first place, domestic producers are
22 supposed to benefit from relief. Furthermore, the law
23 requires the Commission merely to determine whether an
24 industry's performance would be materially worsened by a
25 return of unfair trade, and there is no question that is the

1 case here.

2 Indeed you will hear today that domestic producers
3 are already suffering harm due to the non-subject imports
4 that are pouring into this market. They are losing
5 customers, sales and profits that will be great missed.
6 There can be no question that those losses will be
7 significantly worse if the orders are revoked and more
8 subject imports enter this market.

9 Finally, the Commission has heard a lot about
10 China in recent steel cases. As much as you've heard, the
11 latest information suggests that the problem is even worse
12 than has been believed. You may not hear Respondents talk
13 about it today, but you would if you caught them on any
14 other day of the week. They, like the domestic industry,
15 realize the sea change that is occurring because of Chinese
16 over-production. They are seeing its affects in the other
17 markets they serve and are profoundly worried about what it
18 means for the future.

19 Lifting this relief would be a grave mistake and
20 would open the floodgates for high end foreign producers
21 desperate to find new markets going forward.

22 For all of these reasons, the relief should be
23 maintained.

24 CHAIRMAN PEARSON: Thank you, Mr. Hecht.

25 MS. ABBOTT: Opening remarks in opposition to

1 continuation of the orders will be by Gregory J. Spak, White
2 and Case.

3 CHAIRMAN PEARSON: Good morning, Mr. Spak. Please
4 proceed.

5 MR. SPAK: Good morning, Mr. Chairman,
6 Commissioners, and members of the Commission staff, and let
7 me also add my congratulations both to Commissioner
8 Williamson and to Commissioner Hillman.

9 I am Gregory Spak of the law firm of White and
10 Case and I'm here on behalf of the Argentine producer,
11 Siderca and its U.S. affiliate, Tenaris Global Services,
12 USA. Also appearing in opposition to continuation of the
13 orders is Mr. Mark Herlach of the law firm Sutherland Asbill
14 & Brennan, appearing on behalf of the German producer
15 Benteler. Both Mr. Herlach and I are accompanied by
16 witnesses who will explain in detail the reasons for their
17 opposition to the continuation of these orders.

18 Some of those reasons are obvious. The Commission
19 is examining in these reviews a group of steel products that
20 is tied to the energy sector. Oil and gas transmission,
21 application of petrochemical plants and refineries and other
22 similar applications. The last few years have been good to
23 everyone supplying the energy sector, including the
24 companies represented here today.

25 Prices are up, profits are up, companies are being

1 sold for values that were unimaginable just a few years ago.
2 And the forecasts show a remarkable consensus that the
3 future of the energy sector is bright, not only in the
4 United States, but worldwide as countries around the world
5 continue to confront the challenges in the energy and
6 downstream profiting sectors.

7 The U.S. industry has not been excluded from this
8 good fortune and you can see that in the numbers developed
9 by the Commission staff as part of this review. They do not
10 deny that they are doing well and they cannot really
11 disagree that the economic forces that affect this sector
12 provide a basis for continued growth and high profit levels.

13 But they tell the Commission they are poised to
14 lose it all, that a portion of the market is being taken
15 over by the Chinese producers, and that revocation of these
16 orders is just the thing that could cause a collapse.

17 They say that revocation of the orders and the
18 surge of imports from Argentina, Germany and Brazil that
19 they predict would be the proverbial straw that breaks the
20 camel's back.

21 Our witnesses today will tell you why this
22 scenario is not realistic, let alone likely as it must be
23 for the Commission to continue the orders.

24 First and foremost let us be clear about one thing
25 regarding this particular segment of the U.S. industry that

1 is appearing before you today. It is experiencing its best
2 performance ever with strong fundamentals for the future,
3 and this performance has occurred at the same time the
4 Chinese seamless pipe has increased in its market share.

5 The ITC stated last year that the U.S. industry
6 was not vulnerable and the U.S. industry's performance has
7 only improved since that date.

8 As we delve into this straw that is likely to
9 break the camel's back theory, let's remember that this is
10 one strong camel.

11 Mr. Balkenende from Tenaris Global Services USA,
12 an affiliate of Siderca, will explain that there is no straw
13 to break the camel's back in this case. The U.S. industry's
14 projections of the volumes to be expected from Argentina are
15 exaggerated. Siderca is producing at full capacity in its
16 entire seamless mill and has no incentive to do anything
17 different. Siderca has not added capacity and has no plans
18 to add capacity.

19 Mr. Balkenende also will explain Tenaris' approach
20 to the global market and that it is no coincidence that the
21 Tenaris mills in other countries are not supplying these
22 products to the United States market, even though they
23 could.

24 Finally Mr. Balkenende will explain that the U.S.
25 industry's warnings of aggressive pricing from Argentina are

1 baseless. Siderca and its affiliates recently invested \$3.2
2 billion in the U.S. tubular production market through the
3 acquisition of Maverick Tube Corporation and it simply makes
4 no sense to argue that Siderca would injure this market
5 through irresponsible actions regarding volume or price.

6 Mr. Herlach and his witness, Mr. Michael
7 Herminghaus of Benteler Steel and Tube Corporation, Houston,
8 will explain why revoking the orders would not result in an
9 increase in German imports that would harm the U.S.
10 industry. German producers enjoy the same prosperity as
11 their U.S. counterparts. Benteler's performance is typical
12 in the German industry. High capacity levels of stable and
13 established customer base and lacking any economic or
14 practical incentive to change long-established patterns of
15 doing business if the orders are revoked.

16 In conclusion, as this hearing proceeds this
17 morning we ask the Commission to take a critical view toward
18 all the statements made by both sides and to make its
19 judgment based on the current and projected state of the
20 market and its view of what is likely to occur. Suspicion,
21 conjecture, and exaggerated projections of excess capacity
22 and fears of aggressive pricing behavior are not enough to
23 continue these orders on these three countries.

24 Thank you for your time.

25 CHAIRMAN PEARSON: Thank you, Mr. Spak.

1 MS. ABBOTT: Will the first panel in support of
2 the continuation of the antidumping duty orders please come
3 forward?

4 Mr. Chairman, all witnesses have been sworn.

5 CHAIRMAN PEARSON: Good morning, panelists.
6 Welcome back to the International Trade Commission. I see
7 some familiar faces here. We appreciate the efforts you've
8 made to come and are looking forward to the testimony.

9 Who is running the show?

10 MR. VAUGHN: Commissioner Pearson, I'd like to
11 start with some slides.

12 CHAIRMAN PEARSON: By all means, please proceed.
13 Please identify yourself.

14 MR. VAUGHN: Good morning. I am Stephen Vaughn
15 and I represent United States Steel Corporation and IPSCO
16 Koppel Tubulars Corporation. Before turning to our industry
17 witnesses we would like to give you an overview of the major
18 facts in these reviews.

19 Our argument here rests on four key points.
20 First, if the orders are revoked, imports from all three
21 subject countries will compete under similar conditions of
22 competition thus the Commission should cumulate all subject
23 imports.

24 Second, if the orders are revoked, subject
25 producers will once again ship significant volumes of

1 unfairly traded imports to the United States.

2 Third, domestic producers have already lost market
3 share to imports from non-subject countries.

4 Finally, subject imports would compete directly
5 with domestic producers for their remaining business at the
6 higher end of the market.

7 Now let us consider each of these points in more
8 detail.

9 It is critical that the Commission cumulate all
10 subject imports. Failure to do so would prevent the
11 Commission from giving adequate consideration to the
12 combined hammering effect of imports from all three
13 countries.

14 Furthermore, subject producers in all three
15 countries one, have transnational affiliations that would
16 make it easier for them to enter this market. Two, are
17 already active here. Three, make high end products that
18 would compete directly with U.S. mills. Four, rely on
19 exports. And five, are threatened by Chinese imports in
20 other markets.

21 In short, the case for cumulation here is even
22 stronger than it was during the 2001 reviews when the
23 Commission cumulated imports from all three subject
24 countries.

25 Next we turn to the likely volume of subject

1 imports. These data show that subject import producers
2 reduced their shipments to the U.S. market only after the
3 orders were imposed. This fact strongly indicates that if
4 the orders are revoked, subject producers will once again
5 shift significant volumes of dumped steel to the United
6 States.

7 Furthermore, producers in all three subject
8 countries depend on exports. The actual data with respect
9 to the subject products are confidential. As you can see
10 here, however, each of the subject countries produces far
11 more seamless pipe than it consumes. In other words, the
12 subject producers have to export a large amount of pipe
13 every year. That's why developments in China are so
14 important.

15 You can see here that since the orders were
16 imposed, and particularly since the last time the Commission
17 reviewed these orders in 2001, there has been an
18 extraordinary increase in Chinese production. Indeed, total
19 Chinese production of seamless pipe has more than doubled
20 over the last five years. As Chinese production grows, it
21 takes market share from everyone else.

22 Here you see that according to the staff report
23 China accounted for only about 20 percent of global
24 production when the orders were imposed. Now it accounts
25 for almost half.

1 Chinese demand is not keeping up with this
2 increased production. Indeed in the year since the
3 Commission last considered this industry total Chinese
4 exports of small diameter seamless pipe have risen by more
5 than 80 percent. These growing Chinese exports are a
6 barrier to exports by subject producers but encourages those
7 producers to increase their shipments to the United States.

8 In fact just a few months ago the CEO of Tenaris,
9 parent company of Siderca, one of the producers before you
10 today, plainly expressed his company's concern with Chinese
11 exports. This quote demonstrates that subject producers are
12 already being affected by Chinese competition.

13 Furthermore, subject producers could rapidly
14 increase their shipments of small diameter SLPs to the
15 United States. As you can see from the confidential data in
16 our brief, subject producers have unused capacity in
17 inventories that could be used to make U.S. sales. They are
18 export oriented. They already have channels of distribution
19 in this market, and they are well known and highly regarded
20 by U.S. customers.

21 In short, they are extremely well positioned to
22 ship large volumes of the subject product to this market if
23 the orders are revoked.

24 Subject producers contend that they have no
25 interest in this market or that they could serve it from

1 non-subject sources, but in fact they are already shipping
2 other seamless products to the United States. Here you see
3 that they have a significant presence in the U.S. market
4 with respect to large diameter SLP. While Argentina is
5 under order with respect to oil country tubular goods,
6 Brazilian and German producers are selling significant
7 volumes of seamless OCTG to this market.

8 In short, the record shows that subject producers
9 depend on exports, that they sell other tubular products to
10 American customers, and that they sold large volumes of
11 small diameter SLP in the United States before the orders
12 were imposed.

13 Under these circumstances it is simply not
14 credible that these producers will not once again ship small
15 diameter SLP to this market if the orders are revoked.

16 It is also not credible that subject producers
17 would fail to participate in the largest and most lucrative
18 market in the world.

19 Here you can see that prices here are higher than
20 in other potential export markets such as the Middle East
21 and Eastern Europe. You can also see here the low price of
22 Chinese exports.

23 Under these circumstances the best strategy for
24 subject producers would be to ship dumped steel to the
25 United States where they can obtain higher prices than in

1 other potential markets and undersell domestic producers.
2 That is what will happen if the orders are revoked.

3 As subject imports return to this market they will
4 likely have a significant effect on domestic prices. Here
5 you see that subject imports and domestic like product will
6 compete on the basis of price. While some purchasers are
7 not yet willing to use imports from non-subject countries,
8 those same purchasers would have no such hesitation about
9 buying small diameter SLP from Argentina, Brazil and
10 Germany.

11 Furthermore, the record shows that during the
12 original period of investigation the subject producers
13 engaged in very aggressive underselling. If the orders were
14 revoked they would do so again in order to obtain market
15 share. This would put pressure on distributors to reduce
16 their inventory, causing prices to fall further.

17 Thus the Commission should conclude that the
18 likely price affect of subject imports would be significant.

19 The likely impact of imports will also be
20 significant. Domestic producers are facing a wave of
21 imports from non-subject countries. Here you see how
22 imports have increased over the last three years, including
23 an increase of 44.4 percent in the last year alone.

24 Here you see that much of that increase is being
25 fueled by China.

1 During your last reviews of these orders Chinese
2 imports were almost non-existent in this market, but ever
3 since 2003 they have increased at an extraordinary pace,
4 including an increase of 105 percent over the last year as
5 more and more U.S. customers accept Chinese pipe. Domestic
6 producers are losing sales and are being denied the
7 opportunity to take full advantage of recent market
8 conditions.

9 The current wave of imports is hurting the
10 domestic industry in many ways. Because of these imports
11 domestic producers' output has been restricted. They have
12 lost sales, market share and profit. They have been denied
13 funds that could have been used to increase their capital
14 expenditures or to hire additional employees. Their
15 customers have higher inventories. They have been denied
16 the chance to grow their business, to expand their
17 operations in response to the relatively strong demand of
18 the last three years.

19 As a result, this industry is vulnerable to
20 material injury.

21 Up to this point domestic producers have adapted
22 to the increase in imports by concentrating on high end
23 customers who are not yet willing to use non-subject
24 imports, but these are exactly the same customers who will
25 be targeted by the subject producers. As unfairly traded

1 imports enter this market prices will fall, domestic
2 producers will lose even more market share, as well as the
3 profit they need to survive the downturns in this highly
4 cyclical business.

5 For all of these reasons, the orders should remain
6 in place.

7 MR. BROGLIE: Good morning. I am Les Broglie,
8 General Manager of Tubular Products for United States Steel
9 Corporation. I have worked at U.S. Steel for 33 years and
10 have been in my current position since September of 2003.

11 I am responsible for all aspects of our tubular
12 business, including the production of small diameter
13 seamless, standard line and pressure pipe or SLP.

14 I testified during last year's proceedings and I
15 wish to thank the Commission for maintaining the orders on
16 SLP from Japan and Romania. I am here today to explain why
17 we also need relief on Argentina, Brazil and Germany.

18 Due in large part to these orders we have made
19 money over the last three years. I know that our current
20 profitability is something that the Commission looks at, but
21 I'm here to tell you that we as a company look well beyond
22 that to determine how well we are really doing, and that is
23 very important for the Commission to do the same thing.
24 When you do, I think it will be obvious to you that this
25 industry is operating in very dangerous waters.

1 I don't have the access to the data in your
2 confidential record but it is clear to us that this
3 industry's share of its own market has eroded dramatically
4 in recent years and that this erosion is, if anything,
5 accelerating.

6 We know that has happened to our shipments. We
7 also know that imports from China have skyrocketed in
8 addition to the significant quantities from Ukraine and
9 Russia and we have been forced to see large chunks of market
10 business for those imports. I would be amazed if our
11 competitors are doing any better in fending off these
12 imports. When I add all of this up, it is obvious to me
13 that the industry's customer base is simply evaporating.

14 This is setting off alarm bells at U.S. Steel.
15 The difference in price between our products and those
16 imports are so great we cannot afford to match it.

17 During the steel crisis of the late 1990s, we all
18 saw that it is very dangerous to chase volume by lowering
19 prices. Time after time domestic mills lowered their
20 prices, suffering heavy losses as a result, only to find
21 that they were still undersold by imports. We don't want to
22 go down that path again.

23 Thus we have tried not to match those low import
24 prices. Instead, we have concentrated on the high end
25 customers who are left to us.

1 So far this approach has kept us in the black but
2 it carries with it major long-term costs.

3 The recent flood of imports has cost us an
4 enormous volume of sales that can never be made up. It has
5 prevented us from hiring more people. It has denied us
6 funds that could have been used to upgrade our facilities.
7 There aren't very many bull markets in this business and you
8 have to take full advantage of the few that come along. We
9 have not been able to do that and we are going to pay for
10 that in a major way when we face our next downturn.

11 Furthermore, we doubt the strategy is sustainable
12 over the long run in face of unfair trade. As you will hear
13 from other witnesses later today, imports from China are
14 moving up the value chains. Consequently we are extremely
15 concerned about the status quo. The Chinese producers that
16 have seized such a large share of this market are heavily
17 subsidized and given the extraordinary low prices at which
18 they are selling product in this country, it is hard to
19 believe that they aren't engaging in unlawful dumping as
20 well.

21 I can't tell you at this point what we're going to
22 do about that, but I can tell you that we are watching the
23 situation very, very closely.

24 In assessing whether this industry can withstand a
25 surge of imports from the countries at issue here I would

1 also ask the Commission to keep in mind that this is an
2 industry with relatively few players. One of the major
3 producers was forced to exit its business a few years back
4 in large part because of unfair import competition.

5 We are the largest remaining domestic producer of
6 this product. We have two mills that can make small
7 diameter pipe. One in Fairfield, Alabama and one in
8 Lorraine, Ohio. The one in Fairfield cannot make pipe
9 smaller than four and a half inches. Anything smaller than
10 that must be made at our Lorraine Number 4 mill, thus this
11 mill in a real way is the core of the domestic industry.

12 Our recent experience with this mill provides
13 graphic evidence of why it is so important for the
14 Commission to look beyond our current profitability in
15 evaluating how this industry is doing. The No. 4 mill was
16 designed to operate three shifts. We are currently only
17 able to employ one. That is not because we want to run it
18 that way, we do not.

19 A one shift operation entails substantial
20 additional costs. There are substantial costs associated
21 with running the furnace during the 16 hours each day that
22 we are not making pipe. There are substantial costs
23 associated with the need to have employees take care of the
24 furnace while the mill is not operating. There are
25 substantial inefficiencies that naturally occur because we

1 have to restart our operations each morning.

2 Of course we try very hard to manage these costs
3 and I think our guys do a great job given the circumstances,
4 but any plant that operates only one shift out of a
5 potential three is not doing very well.

6 In short, we want to make more of the subject
7 product and we are capable of doing so.

8 Naturally we have thought about adding another
9 shift during the last three years, but the bottom line is
10 this. There is simply no market for pipe that would be
11 generated by the two shift operation. We could make more
12 pipe with the one shift we have if marketing conditions
13 justified our doing so. That mill depends on orders and we
14 just haven't obtained enough orders to justify additional
15 production. In fact, just this week we reduced the number
16 of hours at Lorraine No. 4 by 18 hours a week due to our
17 weaker order book.

18 We can't simply switch the mill over to OCTG.
19 There just isn't enough demand.

20 SLP accounts for almost half of our production at
21 Lorraine No. 4. We need to do well with this product in
22 order to be successful.

23 Finally, I know that if the orders are revoked
24 subject imports will return to this market in big volumes.
25 They don't really have much choice. Anybody who manages a

1 large-scale tubular operation knows that you never have
2 enough customers. The market always turns down and it
3 obviously seems to turn down just when the experts are
4 predicting otherwise. It happened in the early '80s, it
5 happened in the late '90s and again in 2001 and 2002.

6 So each of us, anyone who knows how to survive in
7 the tubular business, manages as if the next slowdown is
8 just around the corner.

9 If I worked for one of the subject producers I
10 would certainly direct my sales people to start making U.S.
11 sales as soon as the orders were lifted. Their managers
12 will do the same. And when those imports enter this market
13 we will be hurt. Our problems with non-subject imports are
14 getting worse. The quality of imported pipe from China and
15 other markets is rapidly improving. As more and more
16 customer accept that pipe our market share continues to
17 erode.

18 Furthermore, revocation of these orders would
19 critically undermine our strategy of focusing on high end
20 customers because no one would hesitate to use SLP from
21 Argentina, Brazil or Germany. Even if demand were to remain
22 strong, we would likely see too much supply and falling
23 prices in this market. If that were to happen I can tell
24 you this would force us to think very carefully about
25 whether this business really has a future.

1 As you know, U.S. Steel makes a number of
2 different products. This business competes with those other
3 product lines for scarce capital.

4 If I were to go to executive management and try to
5 explain to them why we need to continue to devote capital to
6 this business I would have to acknowledge that we've been
7 killed at the low end of the market by Chinese imports and
8 now are under attack at the high end by two of the premier
9 pipe producers in the world. Executive management would not
10 like that story very much.

11 I hope that when you look at this case from that
12 perspective you will agree that these orders must remain in
13 place.

14 I appreciate the opportunity to appear before you
15 today. Thank you.

16 MR. RAMSEY: My name is Mike Ramsey. I'm the
17 product manager of the Seamless Industrial Products Division
18 of IPSCO Koppel Tubulars. In that position I'm directly
19 involved in the sales and marketing of our seamless pipe
20 products.

21 Like U.S. Steel, we have been forced to change our
22 strategy due to the flood of commodity grade imports that
23 are entering this market. I can remember a time soon after
24 these orders went into effect when we sold a wide blend of
25 seamless SLP pipe that included a broad and general market

1 as well as high strength more specialized grades.

2 Since then we have been essentially forced out of
3 the lower end of this market, and when we say forced, we
4 mean it.

5 Large volumes of imports from countries like China
6 are coming into this market at prices \$600 per ton lower
7 than the domestic price level. We simply can't match that.
8 Even if we did cut our prices by \$600 or so, our experience
9 tells us the foreign producers would quickly lower their
10 price even further.

11 As a result our position in this market has eroded
12 significantly. That is a big problem because we very much
13 want and need to stay in this business. We need this
14 product to operate our mill more efficiently and to better
15 utilize our finishing lines.

16 Moreover, Koppel Steel was recently acquired by
17 IPSCO, Incorporated, a producer of welded pipe.

18 The acquisition of Koppel has enabled IPSCO to
19 offer the full range of products needed by end users. That
20 is an important competitive advantage and that is one that
21 we don't want to lose and we would if we were forced out of
22 this market.

23 For now we have been able to maintain a presence
24 in the market, even in the face of low priced imports from
25 countries like China by focusing on sales of high end

1 products.

2 Revoking these orders would change everything. We
3 would face unfair competition from some of the most
4 respected manufacturers in the business.

5 I know they claim to have no interest in this
6 market, but the manufacturers in all three countries are
7 actively selling other products here in this country right
8 now. They already have a sales force here, they already
9 have customers here, and their products are well known and
10 highly regarded.

11 If the orders are revoked they will be uniquely
12 well positioned to quickly reenter this market in a major
13 way. But they wouldn't need to ship larger volumes of
14 product here to ruin this market. The total market for this
15 product is relatively small. Even 30,000 tons of imports
16 from these countries would be more than sufficient to
17 destroy this market for U.S. producers.

18 Those imports will be aimed directly at us. These
19 are very sophisticated companies and they will focus on the
20 same high end customers that we depend on. If that happens
21 we will have few options.

22 We can't shift to other products like OCTG. We
23 are already selling as much of those products as the market
24 demands. We can't export more SLP pipe, we're already
25 exporting to the extent that we're able to do so.

1 Accordingly, we'll face the same old painful
2 choice -- either cut prices or lose sales.

3 Strong demand would not save us, despite years of
4 relatively strong demand the market is already crowded due
5 to the imports that have already entered this market.
6 Demand finally appears to be weakening.

7 Since I testified here last March, oil and gas
8 prices have both fallen and our prices have been flat.

9 While our order book for this product was
10 relatively strong during the first half of last year, we
11 have experienced significant declines during the third and
12 fourth quarter of 2006. I'm still hopeful that the
13 conditions will stabilize and I remain optimistic about our
14 performance if these orders remain in place. But if they do
15 not, we will certainly be injured, and accordingly we urge
16 you to maintain these orders.

17 Thank you very much.

18 MR. VERELLEN: Good morning, and happy birthday.
19 My name is Tom Verellen. I'm the Manager of Tubular Sales
20 for U.S. Steel. It's a position I've held since 2004. I
21 joined U.S. Steel in 1980. I have 27 years of experience
22 with tubular products. I have a degree in mechanical
23 engineering and an MBA. During my career I've been able to
24 draw on what I learned in getting both degrees because I've
25 worked on both the operating side and the marketing side of

1 our tubular business.

2 In business school one of the things they teach
3 you is that if your market share is shrinking it's an
4 indication that you are in trouble. What is less discussed
5 viewed from that standpoint, our small diameter pipe
6 business is in an extremely precarious position. When you
7 evaluate how the business is doing we ask you to keep this
8 in mind. I can tell you, when we evaluate how our business
9 is doing we certainly have it very much in mind. We're
10 happy that we're making money rather than losing money. We
11 are very much aware that this is because we have been able,
12 for now, to execute a business strategy that has permitted
13 us to make money even in an environment where our market
14 share is rapidly eroding. We've fallen back on sales of
15 high end products and sales to customers that require
16 products from mills that are on their approved manufacturers
17 list. These AM mills almost universally include U.S. Steel
18 and almost universally do not include the mills in China and
19 other non-subject countries like Russia and the Ukraine.

20 Fortunately the portion of the market to which we
21 have been forced to retreat is declining as non-subject
22 imports have become more and more accepted but overall
23 demand has increased enough that our sales to these
24 remaining customers have at least remained flat.

25 It was said a few minutes ago that our fall-back

1 strategy ha succeeded for now, and I said this for a reason.
2 This strategy rests on three legs, and if any one of them is
3 knocked out it will no longer be viable.

4 First, as I just mentioned, this strategy rests on
5 overall demand that has grown enough to maintain a flat
6 level of demand for high end products even though the high
7 end portion of the market is shrinking. We are not at all
8 sanguine about the prospect that these favorable demand
9 conditions will continue. Oil and gas prices have fallen
10 very sharply from previous highs. Although we cannot say
11 for certain whether this trend will continue, we do know for
12 a fact that the up-turn in the oil and gas demand that has
13 occurred over the last three years has been very long by
14 historical standards. This makes us all the more uneasy
15 about the recent signs of weakness in demand.

16 Second, our strategy rests on the fact that some
17 purchasers are still unwilling to use imports from countries
18 like China. However, imports made by certain Chinese
19 producers like Bow Steel and Tien Jin are becoming more and
20 more accepted every day. So we recognize the Chinese
21 industry continues to price this product so aggressively and
22 continues to expand its capacity so dramatically, our
23 strategy will not succeed over the long run. What is less
24 discussed, it is not a given that this will continue
25 forever.

1 Third, finally, and most importantly, our strategy
2 depends critically on the absence of unfair trade and
3 competition for sales of specialty products and sales to AML
4 customers. For the most part that market is now free of
5 such trade. The Commission's affirmative determinations
6 last year and the reviews of the orders against Japan and
7 Romania were very helpful in this regard. although the
8 Commission made negative determination for the Czech
9 Republic and south Africa, the capacity of these producers
10 is relatively small. They don't make the highest end
11 products and they are not yet on many AMLs.

12 The three countries at issue in this case,
13 Argentina, Brazil and Germany, are very different animals.
14 Their capacity is very large, they are major players in
15 international markets, they make the full range of products,
16 and their quality is second to none. They would be
17 instantly acceptable to all customers.

18 If the orders are revoked they will take dead aim
19 at the customers that are at the heart of our strategy.
20 This market is the largest in the world and prices are
21 significantly higher here than in other markets that are
22 available to them. They have every reason to return to this
23 market and to do so right away.

24 If and when that happens, we could be facing the
25 end game in this market much more quickly than you might

1 think from looking only at our current profits.

2 Thank you for the opportunity to appear before you
3 today.

4 MR. McCALL: Good morning. I'm David McCall,
5 Director of District 1 for the United Steelworkers Union.
6 I'm a fourth generation steelworker and I've worked in the
7 industry for over 37 years.

8 With me here today is Don Golden who is the
9 President of USW Local 1104, his Vice President Dan Vorhees,
10 and a member of my staff, a contract coordinator, Sherman
11 Crowder. All of us together work representing current and
12 retired steelworkers, mostly around the Lorraine area.

13 I'm also a member of our union's executive board
14 and in addition to my administrative duties as a district
15 director I'm the chairperson of several of our major
16 bargaining committees which have facilities located in eight
17 different states.

18 I also represent both current and retired
19 steelworkers and their families across Ohio including
20 steelworkers at U.S. Steel's No. 4 mill in Lorraine.

21 I'm here to testify about what these reviews mean
22 for the businessmen and businesswomen who make steel and
23 steel products. Yes, I said businessmen and businesswomen.
24 The analogy between business people and our members is
25 relevant if you consider everyone of our union members as a

1 business of one. Their capital consists of their skill and
2 their experience in making high quality pipe. Their
3 customers are the mills who employ them, the distributors
4 who sell the pipe, and the companies that use it. Their
5 profits are used to support their families, to pay for basic
6 needs, college tuition, health care, and the taxes needed to
7 fund roads and schools and other critical aspects of the
8 communities that we all live in.

9 Like any good business person, our members are
10 constantly trying to become more competitive. WE are very
11 good at what we do. The steel industry has gone through
12 painful adjustments in recent years. Thousands of
13 steelworkers, hard working men and women, were victimized by
14 unfair imports. They've lost their jobs. In Lorraine we
15 have sacrificed and we have survived.

16 The workers in Lorraine are some of the best in
17 the world. As demonstrated by our recent performance, we
18 know we can succeed if there is fair competition with
19 foreign steel producers.

20 Unfortunately, history teaches us that the rest of
21 the world doesn't like fair competition. For all the talk
22 about globalization and free trade, the United States is
23 practically the only true open market in the world. Why do
24 you think we see so much unfairly traded steel in this
25 market? Why do so many other countries have far more steel

1 producing capacity than they could ever use?

2 The United States and Canada are the only
3 countries in the world that have greater demand than
4 capacity. Other countries help their manufacturers,
5 including their steel producers, and in countless ways, from
6 direct subsidies to even closed home markets. Foreign
7 producers in turn export their excess steel and their
8 unemployment to the United States.

9 The producers here today are no different. The
10 Department of Commerce has already found that if orders are
11 revoked those producers will engage in unfair trade. Look
12 at these dumping margins. Germany, 57.7 percent; Argentina,
13 108 percent; Brazil, 124.9 percent. Even by usual standards
14 of unfair trade, these are high margins.

15 I've been in all three of these countries and I've
16 visited steel facilities in Argentina and Brazil and
17 Germany. They have huge capacity but no demand within the
18 internal parts of their country. They produce that excess
19 steel to export to the U.S. unfairly.

20 You are charged to decide if this type of dumping
21 will hurt the men and women whose livelihoods depend on this
22 product. I ask how could it not possibly hurt them? Our
23 business is cyclical. Domestic producers are under enormous
24 pressure to make profits both in the short and long term,
25 and most importantly, even when demand is down.

1 Every day we see more low priced imports entering
2 this market from all over the world and most dramatically
3 from China. Revocation would result in a new flood of
4 imports that will attack the products that we produce. It's
5 absurd to pretend that such a development won't injure our
6 domestic companies and the workers and retirees that I'm
7 honored to represent.

8 Our workers and retirees cannot survive over the
9 long run against unfair trade. If these orders are revoked,
10 people will lose their jobs. Some will probably have to
11 leave their homes, their friends, their churches, everything
12 they've known and seek work elsewhere. Not because they did
13 anything wrong nor because the steel companies that employed
14 them did anything wrong, but solely because our government
15 refused to enforce its own laws against unfair trade

16 In closing, allow me to present some simple facts.
17 The American steelworker is the most productive, well
18 trained, efficient and effective maker of steel and steel
19 products in the world and I'd be glad to take you to any one
20 of our plants and show you a modern steelworker working
21 under new and modern job redesigned and restructured work.

22 Rhetoric about how loss of American jobs are
23 inevitable in a market based economy has no place in the
24 conversation when you consider the American steelworker is
25 the most productive and efficient in the world.

1 Unfair trade is not market based competition.
2 It's simply cheating. It doesn't make the world more
3 efficient. It rewards companies that benefit from foreign
4 government subsidies and closed home markets. That's why
5 the trade laws are on the books. Don't force our workers to
6 deal with even more unfair trade again.

7 We ask that you keep these orders in place because
8 it's right and because it's lawful. Thank you.

9 MR. LELAND: I'm Martin Leland and I'm the
10 National Sales Manager for U.S. Steel's Tubular Product
11 Division. I've worked for U.S. Steel for 40 years, have
12 spent most of that time selling the tubular products.

13 For better or worse I'm a veteran of proceedings
14 like this and as the years go by I sometimes find that my
15 memory is not what it once was, but it's still pretty darn
16 good and one of the things that I remember very clearly is
17 that six years ago Siderca appeared before you in two sunset
18 reviews and said they were not interested in selling in this
19 market. They supposedly had no interest in selling small
20 diameter seamless pipe in this market. They supposedly had
21 no interest in selling oil county tubular goods, either.

22 The Commission was right to be skeptical of those
23 claims.

24 Since that time Tenaris, the owner of Siderca, has
25 acquired Maverick, a domestic welded pipe producer for \$3.1

1 billion. In announcing this deal Tenaris explained why it
2 was so important, noting that the U.S. market for tubular
3 products is huge and that antidumping orders had prevented
4 it from gaining access to it. So now we know that access to
5 the U.S. market is extremely important to Tenaris. In fact
6 it evidently is worth \$3.1 billion.

7 So in this review you're hearing a slightly
8 different story from Tenaris. Now they're telling you that
9 while they evidently have a lot of interest in selling
10 product in this market, it's just not this market, it's just
11 not this product. They're telling you this although they
12 continually emphasize in other contexts that one of their
13 strongest competitive advantages is that they can supply the
14 full range of products needed by oil and gas producers.

15 They're telling you this despite the fact that
16 Maverick is a welded pipe producer that does not make
17 seamless pipe and therefore cannot make standard line and
18 pressure pipe acceptable for use in the applications to
19 which seamless pipe is put, that is the more demanding
20 applications.

21 They'll tell you, in short, that they would not
22 import seamless pipe from Argentina to fill major holes in
23 their U.S. product line.

24 I have to say to you that this makes no sense to
25 me. The fact is both Tenaris and V&M are major

1 transnational companies that would have an obvious interest
2 in this market and immediate acceptance from all customers.

3 Let me switch gears a bit and talk about an issue
4 that Les and Tom spoke about a few minutes ago. The
5 enormous pressure that we are seeing on the supply side of
6 the market from non-subject imports, especially imports from
7 China.

8 Chinese product has flooded this market for three
9 reasons. First, there has been breathtaking expansion in
10 the capacity in China which has outstripped local demand for
11 the product. Second, these imports are extremely low
12 priced. Third, notwithstanding the low price of the
13 product, the product quality is pretty good. Better than
14 what the market has seen from some of the other major non-
15 subject suppliers.

16 This is not entirely surprising, as most of the
17 large Chinese mills are new and most have been built using
18 equipment and technology developed in Japan, Western Europe
19 and the United States.

20 Let me give you a sense of just how low the
21 Chinese prices are. In many cases we've seen imports from
22 China offered for more than \$600 a ton lower than our
23 prices. At that level we simply can't compete with those
24 imports. We would lose money if we tried.

25 As a result we've been knocked entirely out of the

1 running for a large chunk of the business.

2 Furthermore, the Chinese are moving up the value
3 chain. Chinese producers like Bow Steel and Tien Jin make
4 an excellent product. Good enough that we are seeing those
5 mills identified on AMLs of some end users.

6 That brings me to two aspects of this market that
7 are important to understand in terms of our ability to
8 compete by offering lower prices.

9 First, offering lower prices does not increase
10 demand. People do not decide to upgrade an old refinery or
11 a petrochemical plant because the price of seamless pipe is
12 relatively low. Secondly, small diameter seamless pipe is
13 sold almost entirely through distribution. Distributors
14 hold inventory. If we dramatically lower our price to match
15 Chinese prices, this would not be an effective strategy to
16 get more volume. Distributors would anticipate that the
17 Chinese would lower their prices in response. They would
18 conclude that these large price reductions are an indication
19 that prices are likely to fall further and that the value of
20 any product they buy for inventory is likely to decline.

21 In other words, if we reduce price, this may
22 simply cause market demand to instantly dry up. That is one
23 of the reasons why this market can turn on a dime.

24 Finally, I would just echo what Tom said
25 concerning the effect that imports from Argentina, Brazil

1 and Germany would have on this market if the orders are
2 revoked.

3 They are some of the largest and most aggressive
4 producers in the world. Like us they are being squeezed out
5 of the major markets by imports from China. These producers
6 are also not stupid. They know that trying to compete with
7 Chinese imports on the basis of price is a fool's game. If
8 the orders are revoked they wouldn't try to compete in this
9 market by taking on the Chinese. They would compete by
10 offering lower prices to take business away from us. After
11 all, that is exactly what they did before. There is every
12 reason for them to believe that they could do that again.

13 We ask you not to set the stage for that because
14 if you do I strongly suspect that we're not long for this
15 business.

16 Thank you for your time.

17 MR. DURHAM: Good morning, I'm Jim Durham. I'm
18 Chief Executive Officer of Dixie Pipe in Houston. We're a
19 major distributor of small diameter seamless pipe as well as
20 a variety of other tubular steel products.

21 Dixie Pipe has been in the tubular distribution
22 business for 50 years.

23 We like to think that we know where the market is
24 at any given time and that we have the experience necessary
25 to predict accurately where the market is going. This

1 market is now fully supplied, in fact I would say the market
2 is on the verge of being dangerously over-supplied, even
3 with the orders against Argentina, Brazil and Germany in
4 place.

5 The last few years have seen a large influx of
6 imports particularly from China. These imports were not
7 pulled into the market by strong demand, they were pushed
8 into the market by the Chinese mills offering unbelievably
9 low prices. Until recently demand, while nothing special,
10 was strong enough to absorb these imports so that the market
11 remained for the most part in balance. That has quickly
12 changed.

13 As a distributor, in evaluating whether the market
14 is over-supplied one of the things you pay special attention
15 to is your inventory levels. I cannot tell you in public
16 exactly what our inventory situation is, but I can say that
17 our inventories of this product have been at record levels
18 for some time and that we certainly are not in a buying mode
19 today.

20 You should also know that profound changes have
21 been taking place in the structure of this market that are
22 very ominous for the future of U.S. producers. I appeared
23 before you last year in the seamless pipe reviews that you
24 conducted for orders against certain other countries. At
25 that time I testified that imports from countries like China

1 had become increasingly accepted in the marketplace and were
2 coming into this market in such large volumes and at such
3 low prices that they threatened to unbalance the market.
4 Today they are doing just that.

5 I have seen imports from China offered at prices
6 at \$600 a ton and greater than that lower than the price for
7 comparable product made in the United States. When that is
8 the case something has to give.

9 This large disparity is testament to just how
10 quickly and how significantly the surge of non-subject
11 imports has impacted the portion of the market where it has
12 been concentrated.

13 For now domestic producers have been able to focus
14 on selling pipe to those customers who are not willing to
15 buy imports from customers like China and the Ukraine and
16 have thereby maintained a substantial price differential as
17 compared to the lowest price imports, but every month more
18 and more purchasers accept such imports. At some point
19 domestic producers will be forced to lower their prices or
20 cut production.

21 Under these circumstances, revocation of these
22 orders and the increase in imports from companies like
23 Tenaris and V&M that would inevitably follow would be
24 extremely harmful to the domestic producers.

25 You may hear talk from Tenaris and V&M that they

1 are not interested in this market. That's hard for me to
2 believe and you shouldn't believe it. These are global
3 companies whose entire philosophy is to grow their business
4 as much as possible. Selling into this market is a very
5 obvious way to do that. This is the largest market in the
6 world and prices here are much higher than what they are in
7 places like the Middle East and West Africa.

8 These companies, like the U.S. industry, are being
9 squeezed out of their markets by low priced Chinese
10 material. As a result, like the U.S. industry, they are
11 also looking for markets where they can sell high end
12 products and sell to customers that are not willing to use
13 Chinese pipe. That is markets exactly like the one in the
14 United States.

15 Thus if you revoke the orders these mills will
16 reenter these markets in a heartbeat in a significant way.
17 If these cases enable them to do so, in my judgment that
18 would be very harmful to the domestic producers.

19 Thank you for your time and for allowing me to
20 give you my view on this market.

21 MR. BINDER: Good morning. I am Larry Binder,
22 Manager of Tubular Products for Red Man Pipe and Supply, a
23 major distributor of small diameter seamless standard line
24 and pressure pipe, or SLP. My job is to study this market
25 every day, to know as much about its future direction as I

1 can, and to advise my company about how much we should pay
2 for this product.

3 Like all distributors, our success depends on our
4 ability to buy low and sell high. For us, the type of
5 analysis that you are undertaking here today is not merely
6 theoretical. The very future of our company depends on our
7 ability to predict the direction of the market.

8 I have testified before this Commission on a
9 number of occasions and I do not understand why these cases
10 are so controversial. As I see it, you have to answer two
11 basic questions, neither of which is difficult.

12 First, you have to decide whether the subject
13 imports will return to this market in significant volumes.
14 Second, you have to decide whether these imports will hurt
15 the domestic industry. I cannot imagine that anyone who
16 puts his or his company's money in this market would
17 honestly answer either question in the negative.

18 Let's start with the question of how the subject
19 imports will respond to revocation. I know that you're
20 going to hear a bunch of claims about conditions elsewhere,
21 about theories as to why no one cares about this market and
22 so forth.

23 But no one would make such claims outside of this
24 room. When Tenaris bought Maverick it certainly did tell
25 the world that it had no interest in the U.S. market.

1 Instead it bragged about how it could now make more sales
2 here.

3 V&'s people in Houston are trying to sell large
4 diameter SLP and OCT from Brazil and Germany, they certainly
5 don't act as if they have no interest in this market. Nor
6 should they. This is the biggest, most open, most
7 profitable market in the world, period. Everyone knows
8 that. Everyone in this business takes the fact into account
9 in their operations. Mills are always looking to sell more
10 pipe and no where can you find more customers or better
11 customers than in the United States.

12 So in my mind thee is simply no doubt that these
13 subject producers will try to make additional sales in this
14 market.

15 Now let's look at the question of what that will
16 mean for domestic producers. To me, this is also very
17 simple to answer. I'm a buyer. My job is to get the best
18 possible prices for the SLP that we purchase and to make
19 sure that we don't get stuck with a high priced pipe in a
20 falling market.

21 Imagine that one day I pick up the paper and see
22 the orders against Argentina, Brazil and Germany have been
23 revoked. Immediately I realize that there will be new
24 suppliers in this market and that those suppliers will
25 undersell the domestic producers in order to regain the

1 market share that they lost due to the orders.

2 I realize that the domestic producers will come
3 under tremendous pressure to lower their own prices because
4 they have already lost a great deal of market share to
5 imports from places like China and they probably cannot
6 afford to lose much more.

7 I also realize that we should proceed with great
8 caution because we have a lot of SLP in inventory right now
9 and we don't want to be holding that inventory in a falling
10 market.

11 These realizations are not unique to me. Every
12 major buyer will have the same basic viewpoint. This would
13 be very bad news for the domestic industry. The best they
14 can hope for is that they will only suffer somewhat lower
15 prices. What is more likely, I fear, is that we will also
16 see their order books dry up.

17 The companies at issue here are enormous and a
18 small portion of their production could have a great impact
19 on this market. Under these circumstances, all of us will
20 be nervous about market conditions and we will not want to
21 buy more SLP until we know how far the prices are likely to
22 fall.

23 Indeed, we will have to look very seriously about
24 reducing our purchases until we have significantly lowered
25 inventories from current levels. Thus I have no doubt that

1 if orders are revoked, domestic producers will face falling
2 prices and fewer sales almost at once. For these reasons I
3 believe that the orders should remain in place.

4 Thank you very much.

5 MR. STONER: Good morning. My name is Robert
6 Stoner, and I'm Senior Vice President of Economists,
7 Incorporated, which is an economic consulting firm with
8 offices in Washington and in the San Francisco Bay area.

9 I've been asked by the domestic producers in this
10 case to provide my assessment of the condition of the U.S.
11 industry that manufactures small diameter SLP pipe and the
12 likely effects on that industry of revocation of the
13 antidumping orders against Argentina, Brazil and Germany.

14 Since the orders were imposed the U.S. industry
15 has been beset by a flood of low priced imports from non-
16 subject countries. That has led to a decline in its market
17 share. From an economic standpoint, this decline is
18 significant, even though it is not yet reflected in the
19 industry's bottom line.

20 The industry has found a successful short run
21 strategic response to this increase in competition. By
22 focusing on high quality, high value products, and sales to
23 customers that rely on AMLs or that are otherwise reluctant
24 to purchase from unknown quantities such as China, it has
25 maintained sales and operated profitably for the last three

1 years of the period of review.

2 This strategy has been helped enormously by strong
3 demand. Nonetheless, this strategic focus has made the
4 industry more vulnerable to imports from the subject
5 countries. Increased volume of these imports would likely
6 defeat the domestic industry's strategy for survival.

7 A loss of market share can have serious
8 consequences for an industry's performance. Many businesses
9 believe that market share is a good predictor of business
10 success, and this intuitive notion has been quantified in
11 studies such as the PIMS project, PIMS standing for Profit
12 Impact of Market Strategy.

13 When an industry loses significant market share,
14 firms in that industry have two main strategies that they
15 may use in response. One such strategy is for a firm simply
16 to harvest the remaining profit, make no further investments
17 in the industry, and allow its capital stock to dwindle and
18 become obsolete until eventually they exit the industry.

19 The U.S. producers of seamless SLP pipe have not
20 adopted this harvest and exit strategy. Rather these
21 producers have adopted a strategy under which they are
22 focusing on sales only to a portion of the market. This
23 strategy is akin to one described by Professor Michael
24 Porter, a well known and widely respected expert in business
25 strategy.

1 Professor Porter has said that firms faced with a
2 declining market share may succeed in the short run by
3 trying to "identify a segment of a declining industry that
4 will either maintain stable demand or decay slowly and that
5 has structural characteristics allowing high returns."

6 The firm then should focus its sales and
7 investment in that segment.

8 The U.S. industry has reacted to its declining
9 market share by focusing on higher quality, higher valued
10 products, and sales to customers that use AMLs or otherwise
11 are reluctant to purchase imports from non-subject
12 countries.

13 Although the domestic industry can supply a full
14 range of seamless type products, it has thus had to cede
15 much of the market to non-subject imports.

16 The strategy has been successful so far.
17 Beginning in 2001 when demand declined significantly, the
18 industry experienced substantial difficulties. Profits were
19 low and capacity declined.

20 During the last three years, however, the industry
21 has been profitable, largely buoyed by strong demand. Due
22 to strong demand U.S. production and shipments have not
23 fallen in lock step with the decline in the industry's
24 market share.

25 Although this upsurge in demand might continue for

1 the rest of this year, it is not likely to last much longer
2 than that.

3 The price of petroleum products plays an important
4 role in the demand for this industry's products. The Energy
5 Information Administration, EIA, projects that prices of
6 both crude oil and natural gas will decline in 2008 and that
7 the decline will continue to 2012.

8 The Commission should therefore recognize that the
9 present high demand will at best not continue much past the
10 current year.

11 In addition, Chinese imports are improving in
12 quality and this trend will also increase the vulnerability
13 of the domestic industry.

14 Finally, if the duties are not maintained, the
15 domestic industry strategy is likely to fail. As Professor
16 Porter notes, the profit potential of focusing on a segment
17 of industry demand depends on whether companies that serve
18 that segment "have mobility barriers that protect them from
19 attack by companies seeking to replace lost sales."

20 Professor Harrigan in her extensive study of the
21 strategies for declining industries points out that in
22 considering such a strategy, a firm, must consider, if the
23 segment that it is operating in will be enduring.

24 Without the duties, the domestic industry's
25 remaining market position will not endure.

1 The duties are currently the only thing that
2 protects the high valued segment of this industry from the
3 subject imports. Unlike non-subject imports, subject
4 imports clearly have the ability to compete in this segment,
5 as you've heard.

6 The evidence before the Commission shows that
7 subject imports which before duties were imposed and a
8 substantial share of U.S. consumption, would have immediate
9 and full access to this segment.

10 Moreover the subject foreign producers have ample
11 production capacity that would enable them to increase
12 sales. These producers will be able to sell large volumes
13 of product in the same portion of the market that the
14 domestic industry relies on to survive.

15 Importantly, these producers likely will have an
16 incentive to focus in this portion of the market as they too
17 are facing a flood of imports of lower priced products into
18 their markets.

19 Furthermore, prices here are higher than in many
20 of the export markets that they now serve. Thus, if the
21 duties are eliminated, a likely result will be an influx of
22 subject imports directed to the high value segment of the
23 market. Because the domestic industry depends on this
24 segment to survive, it will be particularly vulnerable to
25 those imports. The domestic industry would face a decline

1 in prices and a loss of sales in this high value segment,
2 which would likely make its strategy untenable.

3 I'd be happy to answer any questions that you may
4 have. Thank you.

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

7 CHAIRMAN PEARSON: Okay. Thank you very much.

8 Let's see. Before we begin the questioning, I
9 would like to recognize a group of students who have joined
10 us a few minutes ago from Elizabethtown College in
11 Elizabethtown, Pennsylvania. They are undergraduates who
12 are taking a course in international business law, which,
13 frankly, is a rather interesting and broad area. I hope
14 your exposure to our narrow slice of international business
15 law is of interest and of help to you. Thanks.

16 Let's see. We will begin the questioning this
17 morning with Commissioner Lane, who I have to get used to
18 her being on the other side of the dais now. I couldn't
19 find her there at first. Commissioner Lane?

20 COMMISSIONER LANE: Thank you. And welcome to all
21 of you, and I want to welcome Commissioner Williamson to his
22 first hearing. I know what it feels like to face such a
23 daunting audience your first time, so welcome.

24 There have been several references to the domestic
25 industry's move to high value products. Could you define

1 that more clearly, please, as to what the high value segment
2 is?

3 MR. VERELLEN: Tom Verellen, U.S. Steel. It's not
4 necessarily high value. It's the high end customers. We
5 focus on the major oil companies, larger manufacturers that
6 are a little less comfortable with switching over to unknown
7 products. We have a very long track record in this
8 business.

9 CHAIRMAN PEARSON: Mr. Verellen, please speak a
10 little more directly into the microphone.

11 MR. VERELLEN: Okay. I'm sorry.

12 CHAIRMAN PEARSON: Thank you.

13 MR. VERELLEN: We have a very long track record of
14 being in this business. We've been in it for over 100
15 years, and the U.S. industry is very comfortable with what
16 we make. And I think what we're seeing over time is the
17 many end users are becoming more and more comfortable with
18 some of the what we consider lower end products. So it's
19 not really the product. It's the person who is using it.

20 COMMISSIONER LANE: Okay. So you are saying that
21 it is the higher end customer that you are focusing on, and
22 so that leads me to another question. If those higher end
23 customers became more educated, would they in fact be
24 willing to buy the same type product from the Chinese or
25 others? Because as I understand what some of your other

1 witnesses said, the Argentine, the Brazilian, and the German
2 product already are what you would characterize as the same
3 quality as your product so that if your high end customers
4 became more aware and more comfortable, they could buy from
5 the Chinese or others and it would serve the same purpose?

6 MR. VERELLEN: That's what our distributors are
7 telling us, I mean, more and more every day. And different
8 end users are becoming more comfortable with some of these
9 lower priced products. And absolutely tomorrow, if you guys
10 revoke these orders, the German, Brazilian, and Argentine
11 product will be accepted immediately.

12 MR. LELAND: Martin Leland here. Maybe I could
13 add on a little bit to what Tom has said, and maybe this
14 will help a little bit from what I know. I hope I don't
15 confuse you more. I do that sometime, too.

16 But in the higher end, lower end segment, you say
17 standard and line pipe. There's a standard pipe and a line
18 pipe, and the standard pipe does not meet all the properties
19 of API. Our product meets all the properties of API. So
20 when someone's buying that product, they would tend to be
21 the major oil companies we're talking about. The standard
22 pipe could be the same pipe you maybe run in your house. It
23 would have a lot less pressure. It's not under the same
24 pressure. It's not under the same type of situation.
25 Chinese pipe would be acceptable in that market.

1 COMMISSIONER LANE: Did someone else back there
2 want to say something? Mr. Hecht?

3 MR. HECHT: Commissioner Lane, I guess I would
4 just add that it is our contention that certainly Chinese
5 product is increasing in acceptance, Chinese and other non-
6 subject product, but it's not our view that that has by any
7 means gained full acceptance for the highest end uses, but
8 it is a concern that that is growing day by day and year by
9 year. So we think that goes to vulnerability and is
10 something the industry is concerned about.

11 Our contention with respect to subject imports is
12 that they would immediately be able to compete at the very
13 highest end of the market among all customer groups, and
14 that's why we feel that they are such a direct and immediate
15 threat and would likely cause material injury in short
16 order.

17 COMMISSIONER LANE: Okay. Thank you. I might
18 start this question with either Mr. Hecht or Mr. Stoner.
19 Considering the improvement in the financial position of the
20 domestic industry in recent years, why would the expected
21 volume effects or the price effects of revoking the orders
22 on these countries have any significant impact on the
23 profits, cash flow, employment, or ability to attract
24 capital and invest in the domestic industry?

25 MR. HECHT: This is Jim Hecht, and I'll kick it

1 off. I guess the premise of the question that once you've
2 reached a certain level of profitability, somehow you're not
3 susceptible to seeing declines in those relevant statutory
4 factors, I just would not accept that premise.

5 I think the statute calls upon you to look at a
6 given industry, how it's performing, and to ask yourselves
7 if you allowed unfair trade back in the market, would you
8 see material changes in those statutory factors, and we
9 think there's no question you would. You would see very
10 significant volume from these subject producers. We think
11 you would see effects across the board, in terms of market
12 share, in terms of prices, all of the statutory factors.

13 So we don't think you should be looking for some
14 sort of absolute level of industry performance. You should
15 be looking for changes in industry performance based on the
16 effects of unfair trade.

17 And I think the nature of this market is so
18 heavily related to distribution and where distributors are
19 going to be in a position where they see a falling market to
20 feel that they have to get rid of inventory. You can see
21 effects in this market very quickly, as the Commission has
22 recognized in past cases.

23 MR. STONER: This is Bob Stoner. I would just add
24 that I think it's quite clear that the domestic industry is
25 sort of balanced on a knife edge that right now they are

1 able to command greater, higher prices in the segment of
2 customers that still are reluctant to purchase Chinese
3 product for reputation or quality assurance reasons.

4 But there are other factors as well that in
5 conjunction with that have allowed the industry to have
6 relatively high profits and cash flow in the present, and
7 those factors are such as the very strong demand that has
8 existed up to the present time in the last several years; as
9 well the inventory behavior of distributors who don't want
10 their inventories to decline in value; and in addition, of
11 course, the duties on the subject imports are very important
12 because they've allowed the domestic industry to maintain
13 their position in this segment.

14 And implicit in this description is the fact that
15 if any or all of these factors were to move in the other
16 direction, the performance of the domestic industry would
17 decline, likely decline, precipitously.

18 If demand were to stabilize or even fall, which is
19 what has been predicted, if inventory selloffs begin and if
20 Chinese imports, non-subject imports, begin further to move
21 into the higher price areas of the market, then on top of
22 that, if the duties were removed and subject imports would
23 be able to directly attack the remaining segment where the
24 domestic industry has produced, those factors could very
25 quickly turn around all of the performance elements that you

1 mentioned in your question, cash flow profitability, very
2 quickly.

3 COMMISSIONER LANE: Okay. I see my yellow light,
4 so I will wait until my next round. Thank you, Mr.
5 Chairman.

6 CHAIRMAN PEARSON: Okay. I'd like to start with a
7 question about the transnational affiliations and the role
8 that they might play in this industry. This came up both in
9 the prehearing brief and now again this morning. And what
10 I'd like to understand is I think the thesis you've offered
11 is that by having a transnational affiliation, it increases
12 the probability that revocation of the order would more
13 likely lead to material injury, and I just want to make sure
14 that I have that right. Would anyone care to address that?
15 Mr. Vaughn?

16 MR. VAUGHN: Yes. Commissioner Pearson, if I
17 could just address that. Absolutely. That's actually what
18 the Commission found five years ago. Having transnational
19 affiliations would make it more likely that they would be
20 able to cause material injury.

21 And the Commission was correct because I think one
22 of the things that you're hearing a lot from the witnesses
23 here today is credibility is enormously important in this
24 marketplace. We are concentrating at this point on
25 customers where we have a certain amount of credibility, and

1 that's sort of where our focus has been in recent years.

2 These companies that we're talking about here are
3 companies like Tenaris and V&M that have these transnational
4 affiliations and are well known all around the world. They
5 have exactly that same sort of credibility. They have
6 channels of distribution in this market. They are already
7 serving people in this market. They have large sales forces
8 in the United States already.

9 So I think it's not like when if you're a
10 distributor and you get a call from Tenaris or you get an
11 offer from V&M, it's not the same as getting an offer or a
12 call from a company that you've never heard of. It comes
13 with a sort of credibility and a relationship and a
14 background that makes it much more likely that you're going
15 to buy that pipe. And so all of these things go to why the
16 transnational affiliations make it more likely that they
17 will be disrupted in this market.

18 CHAIRMAN PEARSON: Okay. Well, I wasn't on the
19 Commission five years ago when that previous finding was
20 made. I'm wondering how would you respond, and perhaps
21 someone other than Mr. Vaughn, to the argument that the
22 underlying economics would suggest that if you have a more
23 consolidated global industry with relatively fewer players
24 who might be wanting to export to the United States that
25 there might be more discipline in the market, less cutthroat

1 competition from small players who just have some product
2 they need to get rid of, and putting on top of that the
3 issue that the firms that have transnational affiliations
4 may have some actual interest in protecting the ability to
5 sell profitably in the U.S. market and so would not be keen
6 to drive it down? Perhaps Mr. Stoner? As an economist, do
7 you have thoughts on this?

8 MR. STONER: (Away from microphone.)

9 CHAIRMAN PEARSON: Okay. Could you please come
10 closer to your microphone?

11 MR. STONER: Sure

12 CHAIRMAN PEARSON: Thank you.

13 MR. STONER: I would think that the Argentineans
14 would not want to disrupt the United States market to the
15 extent of lowering the prices from \$1200 a ton to \$600 a ton
16 like the Chinese product. I would think that if they had
17 extra capacity that they wanted to sell that they would
18 undercut the domestic industry initially by a small amount
19 in order to take sales away, and that would cause the
20 domestic industry to have to try to meet that price.

21 And there could be considerable disruption of the
22 market not in the sense of lowering all the prices to the
23 level that non-subject imports are lowering it to but rather
24 on the margin, trying to take sales away by lowering price.
25 And this would cut into the domestic industry's ability to

1 use its segment strategy to maintain its profitability and
2 maintain its position, successful position, in selling this
3 product.

4 So I wouldn't think that the transnational
5 affiliations would necessarily result in such conservative
6 kinds of pricing that you wouldn't get if they had excess
7 capacity that they needed to sell, and since they're largely
8 export-driven, they've got to sell it somewhere.

9 They're going to want to be judicious, I would
10 assume, about how disruptive they were in different markets
11 where they operated, but on the other hand, they would
12 presumably be interested in increasing their sales and
13 disrupting the markets at the margin, as I indicated, which
14 could have a very substantial effect on the domestic
15 industry, which is directly focusing on those segments where
16 the Argentineans and such would be making these attempted
17 inroads.

18 MR. NARKIN: Chairman Pearson?

19 CHAIRMAN PEARSON: Yes.

20 MR. NARKIN: This is Steve Narkin with Skadden
21 Arps. If I could just add to that briefly just from a
22 factual standpoint. First of all, as we have said, Tenaris
23 does not sell this product in the United States to any
24 significant extent. Their acquisition of Maverick does not
25 give them the ability to make and sell this product in the

1 United States.

2 As to V&M, they, as you can tell, are not here
3 today. They have submitted questionnaire responses, and
4 we've talked a fair amount about those in our prehearing
5 brief.

6 CHAIRMAN PEARSON: Mr. Hecht?

7 MR. HECHT: Yes. Just a few additional thoughts.
8 I think the question you're asking goes to a somewhat
9 different point than the transnational affiliation point
10 we've raised. The point we're making, of course, is that
11 the ease of entry back into the market given the name and
12 the credibility and the distribution, that that would
13 clearly facilitate their reentry into the market. I think
14 that's something the Commission has found before. That's
15 something the courts have agreed with, that that in fact is
16 true.

17 You're asking, I guess, a separate question, which
18 is somehow are these combinations reducing competition in a
19 way that would affect their pricing behavior, and I guess we
20 don't see any evidence of that or find it persuasive.
21 You've seen yourself instances in the past where you've had
22 transnational affiliations and the strategy was to both dump
23 or to have one dump or the other. I think if I recall
24 correctly, Siderca owned Tamsa before the '95 OCTG cases,
25 and I think they both chose to dump in this market.

1 So, if you look at the market dynamic where these
2 companies are selling to, what their alternative export
3 markets are, what the pricing options are in those markets,
4 and then look at the attractiveness of the U.S. market, we
5 think they would have a clear incentive to come here. They
6 could get higher prices than what they're getting in other
7 markets and still capture market share here. So I think
8 that would be our contention in terms of their incentive and
9 likely pricing behavior.

10 CHAIRMAN PEARSON: And you do raise a good
11 distinction between the ability of a more sophisticated
12 transnational organization to understand a market and figure
13 out how to enter it. I grant that. But then in order to
14 get to injury, don't we have to take the next step that
15 their entry or reentry into the market would be done in a
16 way that is disruptive and that is driving down prices or
17 taking big volumes?

18 If there is empirical evidence that that has
19 happened in the past when we revoked some other order, I'd
20 love to see it. I'm not sure that I'm entirely comfortable
21 giving full weight to the argument as you've presented it.
22 Mr. Vaughn?

23 MR. VAUGHN: Yes. I mean, I think that we should
24 be clear about what we're saying these companies are going
25 to do. I mean, I don't think that anyone is saying that

1 Tenaris is going to sort of start shipping in necessarily
2 vast amounts of commodity grade steel to compete directly
3 with China.

4 We think that what they are going to do is they're
5 going to maximize their revenues and they're going to
6 maximize their sales and that the way to do that is to say
7 okay, we have to export a certain amount of product every
8 year. We just have to. It has to go somewhere. Where's
9 the best place for it to go? The best place for it to go is
10 the United States, the most attractive market. What's the
11 best way to serve that market? The best way to serve that
12 market is to target the same customers the domestic industry
13 is currently serving. Target those customers, ship the
14 volumes in there.

15 From Tenaris's perspective, it doesn't necessarily
16 have to be a large volume of shipment. From their
17 perspective, they're an enormous company. For these guys,
18 losing that much sale to a company like Tenaris or a company
19 like V&M, if they were to return to some of the levels that
20 we saw before the orders were imposed, it would be
21 devastating.

22 So we absolutely agree that they're very
23 sophisticated and they're going to act in a way that makes
24 the most sense for their bottom line. And we think that if
25 you sort of look at it from their perspective, that adds up

1 to a situation where they would severely harm domestic
2 producers.

3 VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman.
4 I want to join my colleagues in welcoming this morning's
5 panel, and thank you for sharing your time with us today.

6 The theory of injury that I've heard this morning
7 of what would happen if we revoked the orders is that these
8 subject producers would enter into the high end of the
9 market and, as Mr. Stoner just said, bring down prices a
10 little at the high end, not compete with China or Ukraine or
11 other countries at the low end.

12 So my question for all of you is, if you look at
13 where nonsubject imports are coming in from right now in
14 significant quantities, you see a number of European
15 producers, you see imports, in particular, from France,
16 Austria, and Spain in pretty substantial quantities.

17 So my question is, how are you competing right now
18 with producers from those European countries, who, I assume,
19 would be comparable in terms of quality with producers from
20 Germany, Argentina, or Brazil. Are they competing with you
21 in this high end, and why do people buy from them, and how
22 would the competitive dynamics, with respect to the domestic
23 industry and these other relatively high-end producers,
24 change if the subject producers were to reenter the market?
25 If one of the people who works in sales wants to take a stab

1 at this.

2 MR. LELAND: Martin Leland. I'll try to start off
3 with that one. That's interesting. We do see the French,
4 and we do see -- I think Vost Alpine is Austria, and we
5 compete with them. Their prices are similar to ours in most
6 cases where we see them. V&M sells the same distribution,
7 to that extent, that we do in a lot of cases.

8 They have their mill that makes up through ten and
9 three quarter up around Lorain, Ohio, and Youngstown, and we
10 compete with that mill here, which is owned by the V&M
11 people. They bring in the product from France, and that
12 product comes in basically like we would expect these
13 countries to come in. The difference is, again, we're
14 competing in a very small piece of the business. There's
15 180,000 tons of imports, and the domestic people have 60,000
16 tons of that.

17 The imports from these other countries are small.
18 We can compete with it, the pricing, as such; we can compete
19 with that. But if you bring in additional tons above and
20 beyond that and get into the smaller 60,000-to-70,000-ton
21 market, all of a sudden, you've run out of places to go.

22 VICE CHAIRMAN ARANOFF: Did anyone else want to
23 address that? Mr. Binder?

24 MR. BINDER: Larry Binder. As a distributor, we
25 haven't seen that much coming in from the European mills, or

1 I haven't, anyway, and I do know that one from Austria, they
2 bring a lot of OCTG product in, and they do bring some of
3 what we classify as pressure pipe, half inch through an inch
4 and a half. They bring some two inch and four inch in.
5 They have got three distributors. We're not one of them, so
6 I really can't say, price-wise, but I do know the Austria
7 mill has always been very concerned their pricing levels,
8 what they do bring in, because they don't want to be part of
9 the suit or the trade suit.

10 I don't see them that much, to be honest with you.
11 I can't speak for any of the other distributors, but we're
12 not a distributor for them.

13 VICE CHAIRMAN ARANOFF: Okay. Go ahead.

14 MR. VAUGHN: I would just point out also, if you
15 look at the data, you'll see that, you know, the three
16 countries that you're looking at today -- Argentina, Brazil,
17 Germany -- in 1993, for example, they all shipped more than
18 20,000 tons to this market. The Austrian import numbers,
19 for example, you haven't seen that same type of surge. That
20 just hasn't been their history in the past and, similarly,
21 with some of the other countries.

22 So I think when you're talking about these three
23 countries, you're talking about countries that have more of
24 a history in this market and have been more disruptive in
25 this market in the past. So you can't necessarily assume

1 that if the orders are revoked, they are going to act
2 exactly like some of all of these other countries.

3 I think the statute would encourage you to assume
4 that they are going to act as though they acted in the past.
5 Their own behavior is sort of the best model for their
6 likely forward-going behavior, as opposed to some of these
7 other companies who may have different business models or
8 different preferences.

9 VICE CHAIRMAN ARANOFF: Okay. I appreciate those
10 answers, and if there is anything that you can add in the
11 post-hearing because I'm looking at Supplementary Table 1,
12 which is just the public Commerce statistics on nonsubject
13 imports, and if you add Austria, France, and Spain, just as
14 an example, in 2005, you come to over 30,000 tons, which is
15 not nothing in this market, although it's not as much as the
16 subject countries collectively shipped prior to the orders.

17 So I'm just trying to understand why, if subject
18 product were to come into the country in the same high-end
19 part of the market, that would have this effect of tipping
20 the prices lower than the nonsubject imports have not had,
21 and I suppose it depends on what volume we find is likely,
22 but anything that you can do to elaborate on that would be
23 appreciated.

24 There was an amount of testimony from the
25 distributors this morning about the fact that inventories

1 are relatively high and that if a significant additional
2 volume of product were to enter the market, that could
3 trigger an inventory sell-off, which would have a
4 significant effect on prices.

5 In some other steel industry cases that we've seen
6 recently, there has been this pattern of inventories getting
7 high, being sold off, and the whole thing is over in about
8 three or four months, and prices come right back up. Is
9 this market different? When we see an inventory sell-off,
10 is it a short-term thing, or are there more lasting effects?

11 MR. BINDER: In past history, we're in cyclical
12 business, and our inventories are higher, as of February
13 1st, are higher than they have been in the last year, and
14 we're seeing a slow up in the market, demand. We're not
15 seeing a lot of demand. It's steady, but we're not seeing
16 an increase in demand.

17 So what I'm concerned about at our inventory, if
18 we start getting more inventory coming in from all of the
19 mills, it's going to be a price war, and we don't want that.
20 We can't afford it, and we've been through this before, and
21 when you've got higher cost of inventory, and then you come
22 in with lower import pricing, then I've got to sell it at a
23 smaller discount, or maybe sometimes have to sell it under
24 my cost, and then I've got to go out and try to replenish
25 that inventory, and I'm concerned about where it will stop.

1 If you buy one quarter at this price, you've got to order
2 enough for another quarter, well then by the time the next
3 quarter gets in, you're underwater on that quarter, and
4 that's what we're trying to avoid.

5 So it's just basic economics. We don't want to
6 sell under our cost, and we've had to do that historically.
7 Now that we're seeing the product, the demand is steady, but
8 it is not increasing, and we feel that we're in a downturn.
9 Now, how long this downturn goes, I can't answer that, but
10 we've got to prepare for that. So that's the concern to us.

11 VICE CHAIRMAN ARANOFF: Okay. Well, perhaps we
12 can come back to this in the next round. I want to try and
13 understand the economics of your business, the distributor
14 business, a little bit better, in the sense that if all of
15 the distributors have high inventories and no real incentive
16 to buy more, and subject imports come into the market, how
17 can they drive down prices if nobody wants to buy anything?

18 I'm trying to figure out how that dynamic happens,
19 if you all are fully stocked right now. At what point do
20 you have an incentive to buy, even though you don't need to
21 buy, because you don't see the demand, just to bring down
22 the average cost. I'll come back to that in the next round.
23 Thanks, Mr. Chairman.

24 CHAIRMAN PEARSON: Commissioner Hillman?

25 COMMISSIONER HILLMAN: Thank you. Mr. Chairman?

1 CHAIRMAN PEARSON: Yes. Excuse me. Commissioner
2 Hillman, I apologize. I am advised that Congresswoman
3 Sutton has arrived, and we will now welcome her.

4 MS. ABBOTT: The Honorable Betty Sutton, United
5 States Congresswoman, 13th District, State of Ohio.

6 CHAIRMAN PEARSON: Welcome, Congresswoman Sutton.

7 CONGRESSWOMAN SUTTON: Thank you very much. Thank
8 you for the opportunity to address the Commission.

9 It's no secret that our manufacturers and workers
10 in the United States are struggling to compete on an uneven
11 global playing field. This system of unfair trade has led
12 more and more companies to ship skilled, high-paying
13 manufacturing jobs overseas, and over the past six years,
14 we've lost nearly three million manufacturing jobs. Two
15 hundred thousand of these jobs have been lost in Ohio.

16 We must make it a priority to ensure our
17 manufacturers and workers, who can compete with anyone in
18 the world, have a level playing field.

19 I'm here today to discuss an extremely important
20 economic issue to the people of the 13th District of Ohio:
21 the seamless carbon and alloy steel standard, line, and
22 pressure pipe industry. A high-tech, high-wage
23 manufacturing sector, the seamless pipe industry is an
24 example of the types of jobs we've lost and that we must
25 work fervently to keep. There is a seamless pipe facility

1 in my district, located in Lorain, Ohio, that employs 480
2 hard-working Americans. The seamless pipe industry has had
3 to bear the burden of unfair foreign competition, putting
4 the livelihoods of those at our Lorain plant in jeopardy.
5 Our seamless pipe industry continues to survive.
6 Fortunately, thanks to the effectiveness of the antidumping
7 order in place. This is why enforcement of U.S. trade laws
8 is vital, to ensure that our businesses and workers have the
9 opportunity to compete on a level playing field. It is our
10 job to make sure that our market remains free and fair.

11 The seamless pipe industry has battled a
12 significant amount of unfair trading in recent years. In
13 1995, the Commission found that dumped imports of seamless
14 pipe from four countries were injuring the industry. In
15 2000, the Commission found that unfairly traded imports from
16 four other countries had also caused material injury.

17 Just last year, the Department of Commerce found
18 that if these orders were revoked, the dumping would resume.
19 This blatant disregard, repeated disregard, of our trade
20 laws is extremely disturbing. This type of behavior, which
21 has served to undercut and injure our seamless pipe industry
22 in the past, is indicative of what will occur if the orders
23 are revoked.

24 The unwillingness of our trading partners to play
25 by the rules, which is the cornerstone of fair trade, is

1 disturbing. We cannot idly stand by and watch our
2 industries and workers be penalized for playing fairly. We
3 cannot allow the 480 Americans working in Lorain to fall
4 victim to unfair trade. We should not force our companies
5 to compete with foreign producers, propped up by their
6 governments and who unfairly benefit from closed markets and
7 other types of unfair competition.

8 Allowing our industries to be destroyed by such
9 forces does a disservice to our country and renders our
10 trade laws meaningless. The antidumping orders that have
11 been in effect have helped the seamless pipe industry and
12 should be continued to prevent another surge of cheap
13 imports.

14 Accordingly, the Commission should find that
15 revocation of the orders at issue will lead to a
16 continuation of recurrence of material injury. I believe
17 the ITC plays a vital role in the compact we have with the
18 American people when it comes to trade. The American people
19 are willing to support a global system that is fair and
20 allows them to participate in the gains from trade. But an
21 open market means we all need to be playing by the same set
22 of rules.

23 I can tell you that, in my district and in our
24 state, there is a lot of angst and anger when it comes to
25 trade policy that's been followed in this country. People

1 can't understand why we allow countries to manipulate their
2 currency, put up barriers in their markets, and unfairly
3 subsidize their producers. They can't understand why we
4 allow industries to pick up and leave this country or be
5 forced out of business because they cannot compete with
6 foreign companies that receive such artificial advantages.

7 Not so long ago, a Midwest middle-class family
8 could count on a manufacturing job to put food on the table,
9 cover health care costs, and supply a pension. Growing up
10 in a working-class family in Buyerton, Ohio, this was the
11 case for my family. My dad worked in the boilermaker
12 factory, and my parents worked hard to provide for us.

13 Today, the one thing that has not changed is that
14 families still need good-paying jobs in the heartland of
15 America, in Lorain, Ohio; in Akron, Ohio; and Buyerton,
16 Ohio. But we no longer have the security of knowing that
17 good jobs are available to all of those who are willing to
18 work.

19 The lure of cheap labor in foreign nations, where
20 the lack of organized labor means that health care benefits
21 and safe working conditions are not something that a
22 corporation has to pay for, has fundamentally changed the
23 way of life for many in Ohio. They are worried that their
24 jobs will be shipped overseas.

25 You can pursue all of the trade agreements you

1 want, but if you don't enforce the rules, you will never
2 have fair trade. We need help rebuilding confidence in the
3 international system by getting our principles right. We
4 need to make it clear that if you cheat, if you refuse to
5 play by the rules, you will not have access to this market.

6 At the end of the day, that is what this case is
7 all about. The domestic industry has improved, thanks to
8 the benefit of these orders, but it will once again see
9 depressed pricing and unemployment if the door for unfair
10 trade is reopened. That constitutes material injury under
11 the law and fully justifies retention of the trade orders
12 before you.

13 Again, I appreciate the opportunity to provide
14 these comments and sincerely hope that you keep the orders
15 you have provided in place. Thank you so much.

16 CHAIRMAN PEARSON: Thank you.

17 Are there any questions for Representative Sutton?

18 (No response.)

19 CHAIRMAN PEARSON: Thank you. I'm glad you could
20 join us.

21 CONGRESSWOMAN SUTTON: Thank you.

22 CHAIRMAN PEARSON: Now, let me turn again to
23 Commissioner Hillman.

24 COMMISSIONER HILLMAN: Thank you very much. I
25 want to pick up on a couple of the issues that my colleagues

1 have raised to try to understand the relationship between
2 market share issues and price.

3 Mr. Broglie, I heard you say that it was dangerous
4 to lower your price to chase share. We certainly understand
5 that. We see, in a lot of these cases, companies making a
6 variety of choices when they are faced with import
7 competition. One of them could be to lower their price to
8 try to keep share. Another is to make the choice that, as I
9 hear it, you're saying you've made, which is to keep prices
10 high and understand that you're going to lose share as a
11 result of that.

12 But I'm trying to understand how it's working in
13 this market now because, as I look at it, you have the
14 absolute highest prices we've seen in the 15 years that
15 we've looked at this data, very, very high prices; the
16 highest profitability levels we've seen, again, in the 15
17 years, and yet I'm hearing it described as a very all-or-
18 none proposition.

19 Either I lower my price all the way down, the full
20 \$600, to meet the Chinese price, that there is no in-
21 between. I can't lower it by 50 bucks or 100 bucks, which
22 would still leave you extremely profitable, but I can't do
23 that, and that's what I'm trying to understand, is why is it
24 that you would have to go all the way down to the Chinese
25 price in order to win back, or, at least, hang onto, the

1 share that you have.

2 MR. HECHT: --

3 MR. BROGLIE: Mark, can chime in. You know what
4 we see is, getting back to last year, this process started
5 where demand had slowed, inventory was weak. As we
6 discussed, we've got high and our order books started
7 falling off; and, for us, to go significantly lower, or
8 lower our price, it would start a drastic decline in the
9 pricing momentum we have had over the last couple of years.
10 We just don't think that's prudent or smart to start trying
11 to compete with those folks that have already come in and
12 tried to take our business here.

13 I guess, as I said in my testimony, we've already
14 reduced our operation to the lowest level that we think we
15 can manage with, you know, a five-turn operation: one shift
16 per day. It doesn't do us any good to put more product out
17 there.

18 COMMISSIONER HILLMAN: That's what I'm trying to
19 understand, whether that makes sense. Again, you're at sky-
20 high prices, sky-high profitability. Why not give us a
21 little price and a little profitability in order to put out
22 more product?

23 I hear you all saying: It can't work. It doesn't
24 happen, but I'm not sure that I'm understanding why not?

25 Mr. Leland?

1 MR. LELAND: Yes, ma'am. Maybe I can throw
2 something out here and we can bounce this off a little bit
3 and see if we can explain it.

4 But I guess what I would say, and I've developed
5 it with the customers. First of all, remember our customers
6 in this product line, our customer really is not Exxon,
7 Shell, Mobil. Our customer is Larry Bender and Jim Durham
8 and distributors.

9 It all goes through those guys. So the first
10 loyalty I think, in regard to their inventory, really gives
11 us pause to start paying a reduce-price game. If I sold
12 Larry pipe at \$1,200.00 a ton, I injure him if I next month
13 sell it for \$1,100.00 a ton. That's one thing that always
14 comes in our mind.

15 No. 2, I would make the proposition that if the
16 Chinese were \$600.00 a ton below us, if we reduce our price
17 \$100.00 a ton, we would not get one piece of that business.
18 They would still buy Chinese. Why would they? If they
19 could get it at \$600.00 a ton less, then it becomes \$500.00.
20 What's the big deal? They still have a \$500.00 advantage
21 and that's what they would do.

22 COMMISSIONER HILLMAN: Okay. Do any of the
23 distributors want to comment on this?

24 MR. DURHAM: I'm Jim Durham. I would agree with
25 that. If the mills did reduce their price, then that does

1 have a negative impact on the distributors that carry a lot
2 of their product.

3 We buy domestic and we buy import. We buy quite a
4 bit from China. And we certainly are seeing material from
5 China increase in acceptability.

6 COMMISSIONER HILLMAN: Okay. Now, if the Chinese
7 price is \$600.00 lower at the time than your domestic
8 suppliers, why don't you buy everything from China?

9 MR. DURHAM: Because there are still people that
10 want pipe that's made in the U.S.A., that's domestically
11 produced. There are still people that will pipe that's on
12 the approved manufacturer's list, which U. S. Steel and
13 Koppel are on most of those lists, if not all of them.

14 And the subject companies here today, I think are
15 on most of those lists, or could easily get on those lists.
16 I think that you're going to see more and more of the -- I
17 think there is one or two of the Chinese mills now that are
18 on some of these lists and I'm sure that you'll continue to
19 see that happen.

20 As they get on these lists, I would have to think
21 that their prices might come up a little bit. Now, will
22 they come all the way up to this figure of \$1,200.00 or not,
23 I don't know.

24 COMMISSIONER HILLMAN: Okay. How significant
25 would you say these AML lists are? I mean what portion of

1 your purchasers are requesting that the product be from an
2 AML supplier?

3 MR. DURHAM: They're important, but I think not as
4 important as they used to be.

5 COMMISSIONER HILLMAN: Okay.

6 MR. DURHAM: I think that's because more and more
7 people are buying product because of the price disparity,
8 particularly the Chinese, and even the material that comes
9 in from Russia and the Ukraine. We're seeing more and more
10 people that want to try that product.

11 I don't know if I could tell you exactly how
12 important those lists are.

13 COMMISSIONER HILLMAN: Well, maybe help me
14 understand the relationship between these lists versus the
15 stenciling standards issues. It was mentioned. Commissioner
16 Lane asked about this issue of: When you say you're selling
17 into the high-end, high-quality market, and we're all trying
18 to understand, what is that?

19 I think I heard Mr. Verellen's (ph) testimony:
20 It's not that the pipe itself -- the steel isn't different.
21 It's not tested differently. It's the same pipe. It's a
22 question of the fact that you're marketing it to a high-end
23 customer who has faith in U. S. Steel or has faith in
24 Koppel.

25 Again, who has dealt with you before. So what

1 you're selling is, in part, your good reputation, but it's
2 the same steel, the same pipe, as I heard it, that you could
3 buy from anywhere.

4 So I'm trying to also understand the relationship,
5 whether that's really what's going on versus this AML issue,
6 versus whether it is dual, triple, quadruple stenciled for
7 services either standard or line pipe?

8 How do those factors play into these purchasing
9 decisions?

10 MR. DURHAM: Well, the companies that are on these
11 AMLs have made the effort, and have taken the time, to get
12 on those lists. It is time consuming and it's not an easy
13 matter to get on the AMLs. Some companies that have these
14 lists are more stringent in their requirements than others
15 are.

16 I believe that you're going to see more and more
17 of the companies that are not on them now are going to try
18 to get on them, particularly the ones from the oil
19 companies. That would be the Exxons and the Shells and the
20 Chevrans.

21 COMMISSIONER HILLMAN: Mr. Binder, would you have
22 a sense of this: Of what portion of your customers are
23 looking for AMLs, and to what degree how a product is
24 stenciled, or tested, affects this issue of sales by quality
25 high-end?

1 MR. BINDER: Well, when you say quality and high-
2 end, we deal with a lot of the refineries, what we call
3 down-stream products and refinery chemical plants. They are
4 owned by the majors.

5 For instance, like you're got Duke, you're got
6 Exxon, you're got ConocoPhillips. You've got -- anybody
7 that -- Sun that has refineries. They're a liability any
8 more. They've got to cover themselves in liability.
9 They're even asking the distribution now as redman (ph) to
10 audit mills.

11 What the companies have done in the past, these
12 companies, they're gone and went through the mills. They're
13 done audits on them. So they know, and they're approved
14 these mills.

15 They want to get away from that and they're asking
16 distribution to do this also: To audit the mills so that we
17 can say that it's a good mill, it's a premium mill. They
18 make a quality product, even though it may say API spec, or
19 the ASTM spec, but they want to have some documentation that
20 those mills have been audited. Then if anything happens,
21 for liability, they come back and say: Well, we've done the
22 audit and they showed this and this.

23 So they're asking us to do that too. So our
24 purchasing that we look at, we've got to make sure that we
25 have used -- or purchased from the mill that was audited by

1 these end users, or by ourselves.

2 COMMISSIONER HILLMAN: Do you do that only for
3 domestic mills, or are you also auditing foreign mills?

4 MR. BINDER: No, it's all. It's turning into the
5 foreign mills too.

6 COMMISSIONER HILLMAN: Okay.

7 MR. BINDER: And we haven't --

8 COMMISSIONER HILLMAN: In subject countries
9 everywhere: China, the Ukraine, Russia?

10 MR. BINDER: Well now, if the end user has already
11 audited the subject companies, or the Chinese mills, they
12 have told us: Okay, you can go ahead and buy Chinese, you
13 can buy Siderca or whatever. You can buy it and U. S.
14 Steel, they've done audits on U. S. Steel. That's where the
15 AMLs are coming from.

16 And Exxon, they're done a lot; ConocoPhillips has
17 a done a lot. They travel all over the world to do their
18 audits. So when they buy some pipe, they say: We'll
19 purchase that pipe. All you've got to do is make sure that
20 that pipe that you send us comes from one of these audited
21 mills.

22 COMMISSIONER HILLMAN: Okay. I appreciate those
23 answers. Thank you.

24 CHAIRMAN PEARSON: Commissioner Okun?

25 COMMISSIONER OKUN: Thank you, Mr. Chairman. And

1 I join my colleagues in welcoming Commissioner Williamson
2 here for his first hearing, and I'm also welcoming this
3 panel. I appreciate so many of you taking your time from
4 your business to be with you.

5 And to the students who are observing, a welcome
6 to you as well.

7 Let me, I guess, continue a little bit down this
8 line about what the emphasis on the lost-market share during
9 the period of review tells us how we should evaluate looking
10 forward.

11 Help me, if you can, I guess this would be
12 producers, or maybe some of the distributors would have a
13 sense of this as well, which is: To the extent we see the
14 rise in the apparent consumption, which is consistent with
15 the demand that we've talked about during this period, has
16 there been any change in where the high- and low-end part of
17 that?

18 Because, again, to the extent there's been
19 emphasis on China, and China becoming a much bigger player
20 in this market, and apparent consumption going up, it's
21 impacting market share but it's impacting market share in a
22 growing market. So I'm trying to figure out: Is that market
23 that you all could have had, is it the majors?

24 I'm just trying to figure who's seeing to what and
25 whether it's changed over time? Do you want to help me out

1 with that on where this increase in consumption, what kind
2 of products, whose buying it?

3 Mr. Leland, you're usually ready to jump in there?

4 MR. LELAND: Well, to answer your question: I'm
5 not sure where all the customers -- I couldn't name
6 customers where all this Chinese pipe is going, as an
7 example versus where our pipe is going.

8 You know, right now, we have about thirty percent
9 of the market in domestic, and sixty-five percent or seventy
10 percent is international, which a preponderance of that is
11 Chinese. There are others as well.

12 The people buying the Chinese, again, I'll go back
13 to an original comment, a lot of it is going -- low-end is
14 the non-API product that's going into projects that aren't
15 related to petro-chemical, aren't related to refineries.

16 Again, more into housing, construction, that sort
17 of thing. That's where a lot of that Chinese is going
18 today. But, Tien Jin and Bio-Steel both -- these mills have
19 the license, they have been audited all-country-wise by a
20 number of people. There's no reason why in the world why
21 that they couldn't get into the higher end of this thing
22 when they get ready to do it.

23 But there's a huge market in the non-API product.
24 Gosh, like I say, it's construction, it's the things that
25 don't have an API license. That's the people that are

1 buying the Chinese. The people that are buying the higher
2 end, from our distributors, would be the major oil
3 companies, the major independents, the major refineries, and
4 petro-chemical places.

5 I hope I'm not rambling too much but that's what I
6 trying to do, give you a sense of what you're --

7 COMMISSIONER OKUN: Okay. I just wanted to move
8 to that next question, which is: From the responses that
9 you've given to my colleagues, all of you, about what would
10 happen if the order were revoked with respect to these
11 producers.

12 One of your four points you started out with were
13 that they would compete directly with the domestic producers
14 for the high-end sales.

15 You had some responses on the non-subjects that
16 are here, that are Europeans, that look to be comparable,
17 and how much volume is in here.

18 I guess that maybe I'm just going back to this
19 question of: Do we have to find that the volume that's going
20 to come from these countries has to be fairly significant to
21 change the market dynamics much if who these subject
22 producers would be competing with are not the ones that are
23 going to lower prices -- where's not a \$600.00 price spread?

24 I mean I haven't heard anyone say these guys are
25 coming in way under except they're going to be competitive.

1 All right, Mr. Vaughn, you have your hand up.

2 MR. VAUGHN: Yes. Let me just -- because that
3 sort of goes to the question of likely volume and
4 significant.

5 So let me start off by addressing that. The
6 question is: Is the volume that's going to come in from
7 these countries, is it going to be enough to be significant
8 under the law?

9 What you have right now is; You have a situation,
10 I think the testimony has all been pretty clear on this, we
11 already have, and just in the last year, you can look at the
12 numbers and see how much more stuff has come in from China.

13 So every month purchasers are trying to decide: Am
14 I ready to trust Chinese pipe? Am I ready to trust
15 Ukrainian pipe? If the answer to that is yes, then they
16 switch over to the Chinese and Ukrainian pipe.

17 The price gap is so big that, as Mr. Leland was
18 testifying earlier, it's a \$600.00 pricing gap. So there's
19 certainly no way that cutting prices \$100.00 or \$200.00 or
20 \$300.00. If you trust that pipe, then you switch over.
21 That's sort of what has been the testimony.

22 The question is now that leaves the domestic
23 producers, as Mr. Verellen was saying, competing for these
24 sort of what we've been calling the high-end customers,
25 which are customers that are not yet ready to trust the

1 Chinese and other non-subject pipe, for whatever reason.

2 The question is: If you revoke these orders and
3 the volume starts to come in from these companies that
4 everybody trusts, and that everybody recognizes, where there
5 is no hesitation, and that volume starts coming in to that
6 high-end of the market, to those specific customers that are
7 so important to this industry, is that going to be enough of
8 a volume to be significant and to change the behavior of
9 these people sitting before you?

10 And the unanimous testimony of everybody is: Yes.
11 Because that undermines our whole strategy. Because now
12 we're in a position to where we're not dealing with
13 companies that not everybody trusts. We're dealing with
14 companies that everybody trusts.

15 So, at this point, there is nowhere else for the
16 domestic industry to go. They either have to compete
17 directly on price to save that market share, or their orders
18 are just going to dry up. That's what they're telling you.

19 So it's the fact that you're going to see this
20 volume targeted at a particular part of the market that is
21 absolutely critical to the domestic producers. That's what
22 you're hearing these people describe today.

23 COMMISSIONER OKUN: Okay. Mr. Leland?

24 MR. LELAND: Yes. I was just going to add another
25 comment. I think that everybody needs to understand that we

1 are operating five turns a day today; five turns a week,
2 we're operating eight hours a day. That's the minimum we
3 can operate.

4 We don't have the business today. You add
5 additional capacity into this market and we're not going to
6 operate five days a week because they're going to take it
7 directly from us. So there's not this huge, wonderful
8 market out there as we sit in here today.

9 You look at the overall numbers and it looks
10 extremely good, and it has been very nice. But today our
11 plant is running minimum. Like I said: one shift five days
12 a week and that's all we're doing. Additional imports,
13 additional tons into this market, and the Chinese getting
14 upgraded by some of our customers -- any customer lost
15 today to us can be devastating. When we say we're on the
16 knife's edge, that's what we're talking about. We are at
17 the lowest operating level now.

18 You bring in additional tons, even to the twenty,
19 thirty thousand tons we've talked about from Spain, V&M, et
20 cetera, and we would have a problem.

21 COMMISSIONER OKUN: Mr. Broglie?

22 MR. BROGLIE: Yes. I'd just go back to what
23 everybody else is saying: We are at a tipping point here.
24 We take spot orders, basically, the way we work through
25 distribution; and we're not that far out on our order book.

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As we've said, we are running one shift a day at Lorraine. It is very difficult to operate that way. We've been doing it for a long time. We've learned how to do it. Our people do a great job starting up.

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For instance, this week, you know with the weather in Lorraine, Ohio being very cold, we had difficulty starting the mill up. And we are gong to be squeezed very dramatically, as these fellows said, as the Chinese are becoming more acceptable into the market, which they will do, and they're adding capacity and it's good capacity. It's new equipment. They probably have all the orders to the mill builders. And these companies that are at issue here, will quickly take our business away, the one remaining spot that we have available.

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COMMISSIONER OKUN: I guess what I'm hearing is: It's much easier to understand what you're saying about China than it is to understand with respect to these subject producers when your profitability numbers are good.

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Again, this is a highly allocated industry. So we've observed in other cases that the capacity utilization numbers reported -- in some ways, it doesn't look like of other industries, and they have to take that into account when listening to you say how your running your shifts, vis-a-vis your profitability, vis-a-vis other lines that you can

1 run.

2 MR. VAUGHN: And this business has a history of
3 cyclicalities. I mean if you go back twenty some years, there
4 have been boom- and bust times. We'd like to say that this
5 is going to go on forever. I'd like to be that optimistic
6 and tell everybody that, but there's a lot of hindsight here
7 that we have to look at and be aware of, and be cautious.

8 So that's why we're very concerned and that's why
9 we feel that these orders are needed to stay in place to
10 protect the remaining business we have at that facility.

11 COMMISSIONER OKUN: Okay. I'll have an
12 opportunity to ask some more questions on my next round.
13 Thank you, Mr. Chairman.

14 CHAIRMAN PEARSON: Commissioner Williamson?

15 COMMISSIONER WILLIAMSON: Thank you very much. As
16 I said earlier, it's a real honor and a privilege to be able
17 to serve on the Commission and to participate in this
18 hearing.

19 The first question I wanted to get a better
20 understanding of is: We talked about certain imports being
21 produced by trans-national suppliers. But I'm getting the
22 impression that we also have these high-end customers. They
23 are trans-national companies too. So what do they do
24 overseas? Are they going likely to be buying from the
25 subject importer producers overseas?

1 In that regard, how often do these high-end
2 companies change their AMLs, that list? How often does that
3 get changed and updated, and what does that say about the
4 future? Thank you.

5 CHAIRMAN PEARSON: Thank you. Mr. Durham?

6 MR. DURHAM: I would say: How often do they get
7 updated?

8 If a particular company wants to get on that AML,
9 and if they make a strong enough case, I would say that
10 you'll see a new manufacturer on the AMLs, most of them,
11 maybe every year or two. I think that most of them feel
12 that they have all they need. I mean they're got to really
13 need to have someone on their list, and we've worked before
14 in getting manufacturers on these lists.

15 Again, I think that you're going to see more of
16 the Chinese companies on those lists in the future because
17 they are also going more for the high-end customers, and
18 they'll be successful in doing that.

19 MR. LELAND: To answer the first part of your
20 question, Martin Leland here: Internally, they do so, those
21 customers, when you ask about -- if you're talking about --
22 they have contracts on the all country side of the business,
23 as an example.

24 The subject companies here and others have
25 contracts with the major oil companies: BP, Shell, Chevron.

1 They sell all these big companies, and I've been handling
2 the international sales for Tubular as well, and we don't
3 sell to those people. They have contracts. It's a
4 contractual business, but they do. In my opinion, the
5 minute that subjects -- if this were revoked, immediately
6 they would take that business over in this country.

7 MR. HECHT: Commissioner Williamson, we would also
8 like to extend our congratulations and welcome to you.

9 I just want to follow up on what Mr. Leland said:
10 I think it certainly is our view that these trans-national
11 companies do sell to people overseas that we think they
12 would sell to in the U.S. as well.

13 In fact, if you go on the web site and look at
14 Tenaris and how they market themselves as a global company
15 that can meet your global needs in all markets, we just find
16 it fundamentally implausible that, if this relief were
17 lifted, they would say: We'll supply all your global needs
18 except in the most attractive market in the world.

19 So we think that is relevant and an important
20 factor in the case.

21 COMMISSIONER WILLIAMSON: Thank you. A question
22 for Mr. McCall. You talked about the steel workers being
23 the best in the world.

24 So I was wondering what has happened and what has
25 been done for the companies during the time that the orders

1 have been in place to show that they remain that way; and
2 what can you say about how important is that the orders stay
3 in place in order that any efforts that have been made to
4 improve the competitors of the workers and insure that they
5 benefit from global trade?

6 MR. McCALL: Well, I would first start off by
7 saying that I recognize this to be a cheap shot, but I'm
8 going to take it anyway. We've been trying to get the
9 companies to redesign and restructure work for decades, and
10 they finally listening to us around 2000.

11 So, beginning in the year 2000, throughout the
12 industry, we have redesigned and restructured work through
13 our collective bargaining agreements where jobs for decades
14 and decades were single purpose, single functional sort of
15 jobs.

16 We have now taken the blinders off. They are
17 multi-functional, multi-skilled. There is lots of training
18 that goes on in the workplaces throughout the industry, not
19 just in this particular industry, but in all of the steel
20 industries .

21 So we know that we're more productive and more
22 efficient and more effective with those new collective
23 bargaining agreements that were first put in -- at least in
24 the Lorraine facilities and the Alabama facilities in 2003,
25 maybe 2002. I don't remember the exact year, but in part of

1 the Lorraine facility in 1999.

2 So, from that perspective, we know we're more
3 efficient, more effective. But we can't compete against
4 products that are dumped in the U.S. where there are
5 subsidies that help allow those companies to produce those
6 products, or to send those products to our shores.

7 It goes back to another point that I made that in
8 all these countries, whether it's in this particular case,
9 Argentina, Brazil or Germany, where we have visited those
10 facilities and those plants in those countries and talked to
11 some of their broader steel industry folks as well, their
12 capacity, it's tremendous more than the demand in their
13 country. They expect to be able to -- they have to enter
14 our market at whatever cost.

15 But try to get a pound of steel under into one of
16 those countries, even when it is very, very competitive in
17 pricing, you can't do it without some sort of a barrier to
18 that. So, from our perspective, it's about fairness and
19 it's about justice.

20 We'll compete on a level playing field with
21 anybody. We've redesigned and restructured the way we do
22 work and have done a lot of things in the industry from the
23 productivity side over the years, and we expect to be
24 rewarded with that by at least having a level playing field
25 in the market.

1 MR. BINDER: If I could just support what Mr.
2 McCall said. I've been involved, you know, and in my
3 thirty-three years have been through some very significant
4 downsizes and the Union has been very helpful.

5 Like he said, as recently as the last contract
6 that we had, it significantly reduced the workforces in all
7 of our locations. If you go around to our pipe-making
8 facilities, you don't see a lot of people there. So they
9 have made the sacrifices. We have made the sacrifices to
10 become more efficient and we are.

11 No question about it. There are more people doing
12 more tasks today than ever. They're working seven days a
13 week, twenty-four hours a day to make sure that these
14 facilities are maintained and run.

15 So we've got a good thing going here and we want
16 to keep it going. We've finally gotten to be profitable as
17 a result of the cooperation that we've received from the
18 steel workers and we appreciate it.

19 CHAIRMAN PEARSON: Commissioner, can you be close
20 to your microphone there please?

21 COMMISSIONER WILLIAMSON: Sorry. Thank you.

22 I just want to go to a point that Mr. Stoner
23 raised for the demand for oil and gas in the future since
24 this seems to have something to do with the prospects of
25 sales for these products.

1 He mentioned that he didn't expect -- that prices
2 are probably are going to decline. I was wondering whether,
3 given what's been happening in the Chinese economy, and how
4 they're consumption of raw materials and things like that,
5 how much weight should we really give to this prediction
6 about long-term prices and the demand for the products?

7 I guess that also gets to the demand for raw
8 materials for the industry. Again, China is buying an
9 increasing share of the world production of raw materials,
10 and how that might affect the industry's costs and all?

11 MR. DURHAM: Yes, well I think you always have to
12 look with a certain amount of a skeptical eye

13 to any forecasts. But the EIA forecasts take into
14 account the global economy and the likelihood that there is
15 going to be demand for energy from the Chinese economy as
16 well as other sources.

17 I think we just have to go with the best
18 predications that are out there. The EIA projections are
19 not the only ones that I've seen, or that exist. You can
20 look at the NYNEX natural gas and crude oil futures, which
21 is not just a government body making projections. These are
22 people in the market that are contracting for future
23 delivery. where a lot of money is to be made or lost based
24 on the projection being a good one.

25 Those projections, the prices for crude oil

1 futures out in 2008, 2009 also show that there is an
2 expectation that energy prices are going to stabilize, if
3 not decrease.

4 As to raw materials, I would expect that there
5 would be some demand for pipe in China, based on the
6 tremendous expansion that's going on in that economy, petro-
7 chemicals maybe. I haven't studied that but it's not clear
8 to me precisely whether the U.S. domestic steel industry in
9 the United States would be in the best position to go after
10 that.

11 CHAIRMAN PEARSON: Okay, thank you.

12 Commissioner Lane?

13 COMMISSIONER LANE: Thank you. Mr. Durham, I'm
14 going to start with you.

15 As I understand it, U. S. producers sell mostly to
16 distributors, and importers sell only to distributors more
17 or less. And, as I understand your testimony, you have
18 inventory made up of both domestic product and non-subject,
19 including Chinese product.

20 MR. DURHAM: It's basically --

21 COMMISSIONER LANE: And, as I further understand
22 the testimony, you would be buying the Chinese product at
23 approximately \$600.00 a ton less than the domestic product.

24 So could you tell me: Basically, what percentage
25 of your inventory now is made up of domestic and what is

1 made up of non-domestic?

2 If you don't want to tell me that's okay. You can
3 put it in your post-hearing brief and I'll go onto my next
4 question.

5 MR. DURHAM: It's basically half and half.

6 COMMISSIONER LANE: Okay. So, as I understand it,
7 the Chinese product might not be a hot-selling item because
8 of perception. But you are willing to, at least, stock half
9 your inventory of Chinese. And the Argentine, Brazil and
10 the German product is perceived to be comparable to the
11 domestic product. So if these orders come off, what are you
12 likely to do from a purchasing standpoint?

13 MR. DURHAM: Well, that's also going on the
14 assumption that these companies are going to want to sell
15 us, after I've testified here.

16 (Laughter.)

17 COMMISSIONER LANE: Okay. Well, this transcript
18 probably isn't on the best-selling list, so I think you're
19 face.

20 MR. DURHAM: Well, I know one of them pretty well.
21 But let me also say this now. We also carry material from
22 France in the same product range. We've carried it from
23 Spain before. We don't have any now from Spain and we've
24 not carried from the mill in Austria.

25 But our import is not one-hundred percent Chinese.

1 It's France. It's also the Ukraine. It's also Russian and
2 then it's Chinese. It's really kind of simple. If we're
3 selling into a marketplace and we're losing business and we
4 find out why we're losing business and it's because the
5 people are buying something that is much cheaper in price,
6 and it's coming from China or wherever it's coming from,
7 then, if we're smart business people, we need to try to find
8 out where that product is coming from and how we can get
9 some of it.

10 Now that's kind of how we work. And granted
11 again, if we're on top of our business, we kind of know
12 where it's coming from. What we're seeing is that while I
13 realize these hearings are not about the material from
14 China, that's certainly a major, major problem.

15 We're seeing more and more of that being used, and
16 we're seeing that the quality is pretty good. And it's even
17 better than what it is from some of the other countries that
18 we're buying from. It's cheaper in price, but it's better
19 quality.

20 We think the market is going
21 to continue to go that way. I think the reality of it is
22 that if we think the market is that long-term, unless
23 something changes, the market is going to have more of this
24 so-called non-approved in it, not from subject countries
25 necessarily or from the domestics, but again from the

1 Chinese and the others.

2 We think that it's going more and more that way.
3 That's our analysis.

4 COMMISSIONER LANE: But I was curious as to what
5 you might do if these orders came off and Argentina, Brazil
6 and Germany started selling into this market? Would you
7 start buying from them?

8 MR. DURHAM: We probably would.

9 COMMISSIONER LANE: And when you resold that
10 product, who would be most affected: the U. S. industries or
11 the Chinese, the Spanish and the --

12 MR. DURHAM: I would have to say it's gong to be
13 U. S. industries. Because my personal opinion is that the
14 subject companies here are not going to come into this
15 market at \$600.00 a ton beneath the domestics like where the
16 Chinese are.

17 Where they're going to come in price-wise, I don't
18 really know. But if they're offering their product into the
19 marketplace and we have an opportunity to buy some of it,
20 we're likely going to buy it. But we're not going to be
21 selling that against the Chinese.

22 It'll be sold to -- a lot of our business is with
23 other supply companies. We don't do a whole lot of business
24 directly with the end users. Most of it is with other
25 supply companies. We're not really sure where that pipe is

1 going to all the time.

2 But we do know that we get enough calls from these
3 people where they say: We've got to have an approved
4 manufacturer; or sometimes they'll say: Whatever is
5 cheapest. And what we are seeing is that more and more
6 often, they're saying: We want whatever is the cheapest.
7 That's what we want.

8 We think that trend is going to continue.

9 COMMISSIONER LANE: Okay, thank you.

10 Mr. Hecht, I understand your argument regarding
11 relative changes in profitability rather than absolute
12 levels of profitability as a measure of injury. However, I
13 would like some additional explanation on your views on
14 vulnerability?

15 In your pre-hearing brief, you argue that the
16 domestic industry is acutely vulnerable to material injury
17 by reason of the subject imports. Do you equate
18 vulnerability to a weakened condition or an inability to
19 absorb any negative impacts?

20 If so, what factors lead you to describe the
21 domestic industry as acutely vulnerable, particularly in
22 light of the profits of the industry in the last two years?

23 MR. HECHT: There are quite a few things I guess
24 there that that gets into. Vulnerability, under the
25 legislative history, is defined in terms of susceptibility

1 to material injury, which, to me, does not necessarily
2 equate with a weakened state although there is some
3 discussion of a weakened state in that as well.

4 So I certainly think, as a legal matter, that an
5 industry, even at a relatively high level of profitability,
6 could nonetheless be susceptible to negative developments
7 with regard to the statutory factors that you're looking at
8 in terms of: prices. market share, profits, and others.

9 So I guess, to the extent your question goes to the
10 legal point in terms of vulnerability, we do believe that
11 the industry is vulnerable however you choose to look at it.
12 We realize the Commission did not make that finding a year
13 ago.

14 But there have been developments over the course
15 of the year that we think lend even further strength to that
16 in terms of the changes that you're seen in terms of market
17 share going down even further. You've seen the Chinese, I
18 think, go up much further in terms of the surge we're seeing
19 from China. And, in terms of demand for oil and gas, you've
20 seen a weakened position than you did a year ago.

21 So, sort of across the board, I think there is
22 much stronger evidence for it. But we certainly do view it
23 as vulnerable, and we view it as vulnerable for just -- I
24 guess I'd add one further factor, which is: The nature of
25 the distribution in this industry shows you how quickly

1 things can change. If they get into a position where they
2 need to liquidate inventory, you can see all of those
3 factors change very quickly, and we find that to be:
4 susceptibility to material changes.

5 COMMISSIONER LANE: Okay, thank you.

6 Mr. Chairman, I'll wait to my next round. Thank
7 you.

8 CHAIRMAN PEARSON: Although this isn't a hearing
9 about China, I am going to go ahead and ask a little bit
10 more about the Chinese pricing because it has been discussed
11 here quite a bit and I'm finding myself uncertain what that
12 situation is.

13 There has been this reference to a price gap of
14 more than \$600.00 between U. S. prices and Chinese prices,
15 or the Chinese were offering at that level. So for the two
16 distributors: Mr. Durham and Mr. Binder, have you ever
17 purchased Chinese pipe at a price gap of \$600.00 relative to
18 the U. S. price?

19 MR. DURHAM: We do frequently.

20 CHAIRMAN PEARSON: On an on-going basis? The same
21 with you, Mr. Binder?

22 MR. BINDER: The exact figure, I can't recall.
23 But it is in that area, it sure is. We don't buy a lot of
24 Chinese material. We do have some in inventory but it is
25 around that area, that's correct.

1 CHAIRMAN PEARSON: Would it be correct to say that
2 Chinese pipe is the lowest-priced product that you buy?

3 MR. BINDER: Yes. For us, yes.

4 CHAIRMAN PEARSON: No other origins would be
5 offering at a similar price level?

6 MR. DURHAM: That's correct.

7 CHAIRMAN PEARSON: Okay. Is this material
8 distressed in some regard, or off-quality, or is this is a
9 normal grade of product?

10 MR. DURHAM: This would be a normal-grade product.
11 It would be quad-stenciled, quad-certified, which is what
12 most pipe is that we buy.

13 CHAIRMAN PEARSON: Okay. So quad-stenciled for
14 this product?

15 MR. DURHAM: Yes.

16 CHAIRMAN PEARSON: Okay.

17 MR. DURHAM: And we'll only buy from companies
18 that have product liability insurance. These companies have
19 that. Most are also certified. Most of them have
20 relatively new mills.

21 CHAIRMAN PEARSON: Okay. Would it be correct to
22 assume that they are not on most approved manufacturers's
23 lists?

24 MR. DURHAM: That's correct. I understand that
25 there is one or two of them are on the list of some of the

1 major oil companies.

2 CHAIRMAN PEARSON: Okay.

3 MR. DURHAM: Again, I think that's going to grow.

4 CHAIRMAN PEARSON: Mr. Binder?

5 MR. BINDER: I would like to clarify one thing
6 about our purchases. We're talking four-inch pipe and
7 smaller?

8 CHAIRMAN PEARSON: Yes, four-and-a-half inch in
9 diameter, right.

10 MR. BINDER: Four-and-a-half inch diameter and
11 smaller, our inventory that we've bought is at three-and-a-
12 half and four-and-a-half inch.

13 When you get into the smaller sizes, we do not
14 have any inventory in that size. As Jim said, it's all
15 quad-stenciled material just like all the domestic pipe we
16 buy, there is no difference other than the manufacturer.

17 CHAIRMAN PEARSON: One of the reasons about asking
18 for the price gap is that we have units that we're not
19 seeing such a wide price gap in. So that's why I was just
20 trying to understand how common and pervasive is this low-
21 pricing by the Chinese at such a wide gap.

22 My experience with Chinese businessmen is that
23 they are fairly good at what they do and are not likely to
24 leave money on the table. If they're really selling at such
25 a low value, a quad-stenciled product that has liability

1 insurance with it, aren't they leaving a bunch of money on
2 the table?

3 MR. DURHAM: Oh, I would think they are.

4 CHAIRMAN PEARSON: You say that you do think they
5 are?

6 MR. DURHAM: I believe that they are and we kind
7 of wish they wouldn't. But if we don't buy it somebody else
8 is going to buy it and then we have to compete with it.

9 I think the thing that has surprised us is the
10 number of mills in China. I mean, we frequently -- I'd hate
11 to put a figure on it, but you could say maybe once a week,
12 we get some kind of communication, an e-mail, a fax, or
13 something from someone who is representing a mill in China
14 that we've never heard of before.

15 Now, it's not always the four-and-a-half inch
16 smaller size that's seamless. But a lot of it is seamless
17 versus a lot of it that's welded. But I'm not so sure that
18 -- I don't know why they operate like they operate. But I
19 would certainly think that they're leaving some money on the
20 table.

21 MR. LELAND: Mark Leland.

22 CHAIRMAN PEARSON: Yes.

23 MR. LELAND: Well, there are kind of different
24 mills in China. Now you're got the Tien Jins, Bio-Steels, a
25 step above. I would say that their standard line pipe would

1 not be \$600.00 a ton below us. But they are so predominant,
2 all country, that the amount of standard line pipe that they
3 bring into the market is not significant.

4 The other Chinese mills that don't operate, as you
5 say, as responsibly, are at this level. You've got to
6 understand that the huge amount of Chinese capacity -- the
7 start of what we into today began because China was
8 importing raw materials, importing steel today.

9 They are huge exporter and that is what has really
10 flipped this thing over the last year, but there are some
11 very irresponsible mills in China.

12 CHAIRMAN PEARSON: Mr. Stoner?

13 MR. STONER: Yes, I would just add to that that
14 when you have a lot of competition among different Chinese
15 firms trying to sell into the U. S. market, competition
16 drives the price down.

17 CHAIRMAN PEARSON: Right, they benefit from some
18 trans-national affiliations, such as apply to some of the
19 subject producers. But, go ahead.

20 MR. STONER: Yes, that would be one factor. The
21 second factor is that some of the price decline that you see
22 is an effort to get them to overcome representational or
23 quality assurance deficits that they see to get their pipe
24 in use so that people can see that it is of comparable
25 value.

1 That would probably be another issue in their
2 pricing. It wouldn't be seen as leaving money on the table
3 so much as a way of purchasing representation and quality
4 assurance through use of the pipe.

5 CHAIRMAN PEARSON: Mr. Vaughn?

6 MR. VAUGHN: Chairman Pearson, I think it is also
7 important to understand that a lot of these mills that we're
8 talking about are government subsidized mills. They were
9 built with government funds. Their main purpose isn't to
10 make money. It's a way to employ people and to serve the
11 local community in whatever they do and there has been
12 extensive back and forth and research on what's going on
13 exactly with respect to Chinese industry.

14 But I don't think anyone seriously believes that
15 these companies are sort of trying to maximize profits in
16 the way that an American or an European company would try to
17 maximize profits. They serve other purposes. These mills
18 were built to employ the local people in these local towns,
19 and places like that. So, in terms of maximizing those
20 factors, that's what they're doing.

21 I think that's why you're seeing a lot of the
22 behavior that you're seeing. It doesn't make sense to
23 compare them to sort of people who are operating in a kind
24 of a market-based economy.

25 CHAIRMAN PEARSON: It's not entirely bad that the

1 Chinese producer should be doing things to help Mr. Durham
2 and Mr. Binder keep their margins bad. I don't think that
3 that is necessarily bad at all.

4 I'm in favor of U. S. businesses making money,
5 especially when it's possible because sometimes frankly the
6 market just doesn't allow it. So we're in a fortunate time
7 now when the market is allowing it.

8 But I wonder if, for purposes of the post-hearing,
9 and not wanting to create a substantial burden for
10 distributors who are here, but I think it might be helpful
11 to us to have some review of prices that you're paid over
12 the pst two or three years for Chinese product versus the
13 domestic product; and then, perhaps, some other non-subject
14 product.

15 I would just want some information that's
16 representative to try to put in context what we're hearing
17 about these Chinese prices. Because somehow, the testimony
18 is that we have low-priced Chinese product in the market.
19 Yet we still have on the record very strong pricing overall
20 for this type of pipe in the U. S. market. Something is
21 going on here and there's a bit in my mind that there is
22 still a bit of a disconnect. Mr. Durham?

23 MR. DURHAM: Yes. I would agree with that, and
24 I'd also like to say I think if you go back to 2004 and
25 2005, and maybe part of 2006, when demand was so hot, I

1 don't think people were paying as much attention to the
2 pricing then as they were if you went back four or five
3 years ago when it was a different type of marketplace.

4 Where we are now, I think demand is flat. I don't
5 think it's going up; and, if anything, it might be trending
6 down a little bit, not significantly. But I believe we're
7 in a period of time now where people are going to start
8 paying a little bit more attention to pricing than what they
9 were maybe in the last two or three years.

10 In the year 2004, people were just trying to get
11 material period. In 2003, everybody let their inventories
12 run down in 2002 and 2003 because demand was soft. And then
13 when things really got hot at the end of 2003 and going into
14 2004, it was almost like people didn't care what they paid
15 for it. They had to get material, but that's changed.
16 Unfortunately, it's changed.

17 CHAIRMAN PEARSON: Okay. I appreciate it. My red
18 light has come on. But, counsel, for purposes of the post-
19 hearing, can you put something together that would help us
20 understand better the pricing of purchases by the
21 distributors and the quantities that went along with that
22 pricing?

23 MR. HECHT: We will endeavor to do that, if we
24 can.

25 CHAIRMAN PEARSON: Thank you very much.

1 Madame Vice Chairman?

2 VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman.
3 I want to go back briefly to some of the questions about
4 inventories that I was asking in the first round that I
5 don't think were entirely answered.

6 Mr. Binder and Mr. Durham, you've both indicated
7 that demand is more or less flat and that inventories are
8 high. About how many months of inventories does that mean
9 you have on hand?

10 MR. BINDER: Well, you're talking about the items
11 that are under discussion today: four-and-a-half inch down
12 to a half-inch pipe, I would say that right now we've
13 probably got, in those sizes, maybe forty-five days
14 inventory.

15 VICE CHAIRMAN ARANOFF: Okay. Mr. Durham, how
16 about you?

17 MR. DURHAM: I would think that we have more than
18 forty-five days. We probably have more like ninety days of
19 inventory.

20 VICE CHAIRMAN ARANOFF: Okay. One of the
21 questions that I asked in the last round that we didn't
22 quite get around to getting an answer was: If there is an
23 inventory sell-off in the market, how long can we expect
24 that to affect prices?

25 Because certainly in other steel prices, and I'm

1 thinking particularly of cut-length plate that we had a
2 recent review of, you would see an inventory sell-off and
3 prices would come down for about three months, and then come
4 right up and start going back up again.

5 So how do inventory corrections typically work
6 with respect to this product?

7 MR. DURHAM: I would think maybe that period of
8 time, or maybe even shorter. I mean it just depends upon
9 how much inventory is in the market in total. I don't know
10 that figure. I don't know that anybody knows that figure.

11 But I think the other thing is that you know
12 people have to turn inventory for cash flow; and whether
13 it's pipe or whether it's cut-to-length sheet for plate or
14 whatever it might be. If you have a huge inventory, you've
15 got to keep that inventory turning because you've got to
16 have money to pay for what you've bought.

17 Also, hopefully, when these corrections happen,
18 all of a sudden, the market is short on one size. Then,
19 whatever that size is, you've got to replenish it, reorder
20 that size. So it's also a function of cash flow.

21 VICE CHAIRMAN ARANOFF: Okay. I know counsel is
22 whispering. I don't want to give them the impression that I
23 don't see the difference between an inventory correction and
24 what might happen if a large amount of subject imports enter
25 the market.

1 I could see that that is where they were going to
2 go with this. But what I'm trying to understand, based on
3 how the normal inventory process works in the industry, is
4 basically the dynamic by which subject imports would re-
5 enter the market.

6 Let's just assume, for the sake of argument, that
7 there is a lot of available capacity, and that the prices in
8 the U. S. market look attractive to subject producers, and
9 the orders are lifted. And subject producers come into the
10 market. They call up Mr. Binder or Mr. Durham and some of
11 your competitors. They offer you their product at current
12 prices or maybe just a little below to get your interest.

13 What happens next? You've told me that you have a
14 lot of inventory and you don't see demand increasing, you
15 see it relatively flat, so who buys it and what happens
16 next?

17 MR. DURHAM: Well, if they came into the
18 marketplace, first of all, you wouldn't be able to -- if
19 they offered you something today, you probably wouldn't be
20 able to get it for probably sixty days, or maybe ninety.

21 I don't know about these particular mills, what
22 their performance is but it's probably pretty good. If
23 you're doing a good job, you have to hope and think that in
24 sixty or ninety days, you are going to need it.

25 VICE CHAIRMAN ARANOFF: Okay. Is there a ceiling

1 in this market base basically for imports? Not so much a
2 buy-American-type ceiling, but more a logistical ceiling?

3 There are a number of steel sectors where there
4 are people who need to buy domestic

5 because they can't wait that many months to
6 restock?

7 If we have already got a significant amount of
8 non-subject imports in the market, both at the high end and
9 low ends, is there room for more in terms of the time that
10 you have to wait, for example, to get imports?

11 MR. DURHAM: There's always room for more if the
12 price is right. I think that a lot depends on price.

13 VICE CHAIRMAN ARANOFF: Okay.

14 MR. LELAND: Mark Leland. If that would occur,
15 what they would do, although Jim loves me like a brother, he
16 would quit buying from me and wait on that pipe to get here
17 so that we would be down.

18 VICE CHAIRMAN ARANOFF: Okay. I guess that's
19 where I'm going with this: If you have a market where China
20 is taking care of the people who want the cheapest price,
21 and you've got the domestic industry and some of the non-
22 subject imports at the higher end, and other non-subject
23 imports come into the market just a little bit lower prices
24 because they don't want to sell here at the price the
25 Chinese are selling at either, why do they take sales from

1 you and not from France or Austria or high-end non-subject
2 imports? Go ahead.

3 MR. VAUGHN: Before the industry gets its answer,
4 I just want to make one point. It is to clarify what we've
5 been saying, which is: We're not saying that China is
6 necessarily only going to stay at the low end of the market.
7 We believe that China is becoming more acceptable and
8 eventually, it may achieve acceptability in all parts of the
9 market.

10 In fact, we think that you have a situation where
11 the situation is changing so rapidly, and they're picking up
12 market share so rapidly that it is very difficult to say
13 where it's all going to end.

14 What we can say is that in the last year, they
15 have more than doubled their shipments to this market. We
16 don't yet know where that's going to end. I just wanted to
17 clarify that it's not our theory that their situation has
18 stabilized and now they're sort of this other end of the
19 market.

20 That's not what we are arguing here. We're
21 arguing that we're in the middle of a surge and we don't yet
22 know where that surge is going to end. Having said that,
23 I'll pass the microphone.

24 VICE CHAIRMAN ARANOFF: Thank you. Mr. Binder?

25 MR. BINDER: Jim and I are competitors in some

1 ways but he sells more to distribution. We sell more to the
2 end users. Some of the alliances that we have -- we talk
3 about air-mills (ph). There are several mills on the air-
4 mills. When the subject companies that we're talking about
5 today come in with a lower price, these purchasing people,
6 they're not stupid. They know that they're going to come in
7 at a lower price.

8 In some of our alliances, we have to furnish at
9 the lowest cost. If we don't have that material, we've got
10 to furnish our material, domestic material, at that price,
11 at the lowest price until we get that product in, and we're
12 going to be forced to buy a cheaper product too. It doesn't
13 make any difference whether we run out or what. We set a
14 price level right there and we're going to have to sell the
15 product.

16 Naturally, U. S. Steel, or some of the domestic
17 mills, are going to suffer because we're going to be buying
18 the product that is the cheapest for the end user.

19 VICE CHAIRMAN ARANOFF: Okay. I appreciate those
20 answers. Let me switch gears entirely and ask a question I
21 don't want to forget: For those of you who have taken a look
22 at Siderca's brief, they make an argument about
23 interchangeability of welded and seamless pipe.

24 The question that I want to ask is: They argued
25 that welded pipe can be fairly widely substituted for

1 seamless pipe. I see my time is up. I'm going to end up
2 coming back to this.

3 One of the things I'm interested in, and I'll come
4 back in the next round, is both physical substitutability,
5 which I'm not sure there is a whole lot of support in the
6 record for, but is there a price relationship between prices
7 for seamless and welded pipe? Do they tend to move in
8 tandem?

9 Does anybody want to take a real quick shot at
10 that, or should I pass until the next round?

11 MR. DURHAM: Well, I would say in general that
12 welded pipe is quite a bit cheaper than seamless.

13 VICE CHAIRMAN ARANOFF: Right, but do they move in
14 tandem? Do the prices affect each other?

15 MR. DURHAM: What we see in welded is that it kind
16 of moves in tandem with flat roll.

17 VICE CHAIRMAN ARANOFF: Okay.

18 MR. DURHAM: And not with seamless. Seamless, you
19 know, is not made from flat roll. If there is an
20 interchangeability between seamless and welded, where welded
21 is going to be used in lieu of seamless, I would be very
22 interested in knowing more about that.

23 VICE CHAIRMAN ARANOFF: Okay, thanks. I
24 appreciate that answer. It was brief and to the point.

25 MR. BROGLIE: I would agree with Jim. There is a

1 difference, and it's varied over the last 10 or 15 years,
2 but it does track the hot-roll price.

3 VICE CHAIRMAN ARANOFF: Okay. So it's not a
4 consistent price differential between seamless and welded
5 because welded is not being priced on the same basis.

6 MR. BROGLIE: Right.

7 VICE CHAIRMAN ARANOFF: Okay. I appreciate those
8 answers. Thank you, Mr. Chairman.

9 CHAIRMAN PEARSON: Commissioner Hillman?

10 COMMISSIONER HILLMAN: Well, thank you. I would
11 like to pick up on this because this is a question that I
12 had some interest in as well. Just out of curiosity, what
13 is approximately the difference currently between a seamless
14 pipe and a welded pipe, same product?

15 MR. DURHAM: Well, we don't buy a lot of domestic
16 welded pipe. Most of what we buy in welded is import. So
17 I'm not really sure where the domestic price is on welded.

18 COMMISSIONER HILLMAN: Okay. On the imported
19 side, how much is the difference?

20 MR. DURHAM: Versus seamless?

21 COMMISSIONER HILLMAN: Yes.

22 MR. DURHAM: Probably \$200 or \$300 a ton.

23 COMMISSIONER HILLMAN: Part of the reason I'm
24 wondering on this issue of substitutability is whether or
25 not the rise that we've seen in this Chinese seamless that's

1 at the low end is whether or not that is going into
2 applications that had historically used welded?

3 MR. DURHAM: Yes.

4 COMMISSIONER HILLMAN: I mean, if you can buy
5 Chinese seamless for the same as or less than welded, is
6 that what's going on is people are deciding, well, even if
7 it's China and I'm not really sure, a seamless product is
8 still going to be stronger, whatever, but qualitywise is
9 still a better buy for me than to buy a welded product?

10 MR. DURHAM: There are times when you can buy
11 Chinese seamless for less than you can buy domestic welded.
12 I would say the only size that I know of, where there might
13 be changeability where you could use welded in lieu of
14 seamless is that we have applications for full-bodied
15 normalized, for some sizes that might be going offshore, as
16 an example, but that's four inch only. That's not three and
17 it's not two.

18 Whereas, sometimes people will say, you know, give
19 me a price on seamless and also give me a price on full-
20 bodied normalized welding. There's not a lot of mills that
21 can make full-bodied normalized welded. We see that. But
22 I'm not aware of any other application. You know, I'm sure
23 there's a lot I don't know.

24 VICE CHAIRMAN ARANOFF: Mr. Leland, you're
25 presumably on both sides of this, on the welded and seamless

1 side. Would you say there is an increasing amount of
2 substitution of seamless product for what had been
3 previously welded product?

4 MR. LELAND: No, ma'am, I wouldn't say it was
5 extreme. I would just parrot what Jim said, that we have
6 seen it on four and-a-half inch in the pipeline application.

7 The thing that happens, remember, the seamless
8 grade A106(b) is seamless only. You cannot substitute
9 welded for that particular grade, and a big piece of where
10 seamless goes is in that A-106 application in related
11 situations.

12 VICE CHAIRMAN ARANOFF: Okay, go ahead, Mr.
13 Binder.

14 MR. BINDER: I agree with Martin and Jim both on
15 that. The only sizes that we have that are submitted, and
16 one of them is not under this case, is six and five-eighths
17 and four and-a-half. But it's always specified full-bodied
18 normalized.

19 VICE CHAIRMAN ARANOFF: Okay.

20 MR. BINDER: Now when you get into the smaller
21 sizes, I'd like to know myself, because we're not seeing it.

22 VICE CHAIRMAN ARANOFF: All right, okay, I
23 appreciate those answers. If I can then focus on the
24 producer side and the relationship to OCTG, we obviously
25 have data that would suggest that production, again, through

1 the time period that we have it, is up in both seamless and
2 OCTG.

3 In previous cases, we've always been of the view
4 that OCTG is normally the most profitable product for you to
5 make and sell. Yet, I've heard your testimony that there is
6 not more demand out there for OCTG. It is what it is now.
7 You're selling as much as you can.

8 Help me understand how you're making the decision
9 as to, if you could switch standard and line versus OCTG,
10 how you make your decisions in terms of your allocations,
11 and is it still the case that you are more profitable making
12 OCTG than standard and line pipe? Mr. Ramsey, if you could
13 turn that microphone on for me.

14 MR. RAMSEY: Mike Ramsey -- there are certain
15 grades of OCTG product that we do make very, very desirable
16 returns on gross margins. We look at product lines from a
17 gross margins standpoint, and make the decision from that
18 point.

19 But I think overall, for us, our markets on the
20 OCTG products are for the higher strength, higher heat-
21 treated products, and that sets the type of product line we
22 try to target.

23 VICE CHAIRMAN ARANOFF: Okay, on the U.S. steel
24 side, Mr. Broglie, this is this issue of when and how you
25 switch between seamless versus OCTG. Is OCTG more

1 profitable for you to produce?

2 MR. BROGLIE: Well, we can give you more
3 information in the post-hearing brief. But on this product
4 that we're talking about, the answer is no. We need a
5 balance between both of those product lines to keep this
6 mill running, and that's been the historic nature of the
7 business.

8 So, you know, we're just trying to balance the
9 operation for that one shift that we have there. It's not
10 based on the fact that the OCTG is sold out and we're
11 selling everything we can make, because that's not
12 happening, either.

13 VICE CHAIRMAN ARANOFF: Okay, and is that true
14 just for your Lorraine facility, or would that also be true
15 at Fairfield?

16 MR. BROGLIE: Both, at Fairfield, as well, yes.

17 VICE CHAIRMAN ARANOFF: If I can then go to the
18 issues of cumulation, I think as those of you who have read
19 a lot of our determinations as of late know, I would say the
20 Commission has tried to really understand this issue of the
21 various levels of export orientation of the countries
22 involved.

23 I notice, Mr. Vaughn, in your original slides,
24 that you are, in essence, saying to us that all three of
25 these countries are, you know, similarly situated in terms

1 of their export orientation.

2 While the numbers themselves are confidential, I
3 have to tell you, I would at least think you ought to beg to
4 differ on that. I think there is one of those countries
5 that supplies the vast majority of their product to their
6 home market.

7 So given that the data is confidential, I would
8 ask you in your post-hearing brief to address the country
9 that is sending more than 90 percent of their product at
10 home, why we should lump them in with the other two
11 countries and say that they are all, you know, export-
12 oriented and that they would necessarily come here?

13 MR. BROGLIE: Commissioner, we will do that. But
14 could I also comment on, sort of, cumulation generally?

15 VICE CHAIRMAN ARANOFF: Certainly.

16 MR. VAUGHN: We will certainly do that in the
17 post-hearing brief. But let's understand sort of how this
18 fits into the overall cumulation analysis.

19 We would argue that if you have a situation in
20 which the countries are going to have a discernable adverse
21 impact, countries are all going to have a reasonable overlap
22 of competition. At that point, it's a question for your
23 discretion as to whether or not to cumulate. In other
24 words, the legal requirements for cumulation have been met.
25 It's your discretion, at that point, as to whether or not

1 you chose to cumulate.

2 We would argue that if you look at these there
3 countries, on the whole, overwhelmingly, these are very
4 similar countries. I mean, these are countries where you
5 have similar companies. You have countries with similar
6 histories. You have companies with similar backgrounds.
7 You have companies with similar ways of doing business.

8 No one at this table, and I don't think anyone in
9 the afternoon, is going to distinguish between these
10 companies, in terms of their quality, in terms of their
11 general overall strategy in the market. I mean, they're
12 just very, very similar companies. So I think you can
13 always find some differences in the data between one company
14 and another company, and we will address the particular one
15 that you've discussed.

16 But we would ask you to put all this in context,
17 and when you put it in context, you see that if you don't
18 exercise your discretion here and cumulate these countries,
19 you will really miss the full effect that these companies
20 are going to have on the United States industry. Because to
21 break them up and look at them one by one is completely
22 unrealistic, in light of what they are actually going to do
23 in this marketplace.

24 VICE CHAIRMAN ARANOFF: Well, again, I hear what
25 you're saying. I'm not necessarily disagreeing. But again,

1 I do think a company's presence in the export markets
2 anywhere in this product is viewed very highly by the
3 Commission as an indication of what might happen.

4 When one country, one company in that country, is
5 very differently situated than everybody else, it's not as
6 clear, just from looking at the data, that they necessarily
7 should be cumulated, because it's not so clear that they
8 would compete in a similar vein in the U.S. market, given
9 their current export levels. That's all I'm asking you to
10 take a look at.

11 Then the second issue that I would ask, I noticed
12 in the price comparison charts, again, on how relatively
13 attractive is the U.S. market, you gave us prices for
14 everywhere but Europe and Latin America, which is where the
15 subject countries are located.

16 So I'm again trying to understand whether the U.S.
17 is attractive, vis-a-vis, their home markets -- home market
18 meaning Western Europe or Latin America. So if you could,
19 in the post-hearing, add into that where you see U.S. prices
20 vis-a-vis Western Europe and Latin America, because they
21 were not included in your chart.

22 MR. VAUGHN: We will certainly do that.

23 VICE CHAIRMAN ARANOFF: Okay, I appreciate that.

24 Thank you, Mr. Chairman.

25 CHAIRMAN PEARSON: Commissioner Okun?

1 COMMISSIONER OKUN: Thank you, Mr. Chairman, and
2 Commissioner Hillman had ended with the question I was going
3 to start with. But if I could also just ask if there's any
4 information that you could gather with respect to prices on
5 other Asian markets besides China, I'd appreciate seeing
6 that, as well.

7 MR. VAUGHN: We will try.

8 COMMISSIONER OKUN: I know that one doesn't show
9 up as often, but if there's anything out there. Then just
10 keeping on the question about what the prices would be of
11 subject imports if the order were lifted, and this relates
12 to Commissioner Williamson's question about demand.

13 Because I think the argument that I saw in your
14 brief was perhaps slightly different than what I think
15 you've argued before. At page 66 of the brief you said,
16 "The Commission should not ask whether demand will be
17 relatively high compared to historic levels. Rather, the
18 Commission should ask whether demand will increase by an
19 amount sufficient to offset the wave of imports that will
20 enter this market."

21 I guess my question is, if Mr. Durham, when he had
22 responded to a question, had said look in 2004 -- and I
23 think if you look at pricing data in 2004, 2005, and 2006,
24 prices are very high and people aren't paying quite as much
25 attention. They're paying more attention now.

1 Doesn't the Commission need to look at what we
2 think the demand forecast will be, both in this U.S. market
3 and globally, to determine what price these subject imports
4 are likely to come in at? Because I would argue that if
5 it's a strong market, that they are not likely to -- you
6 know, if you're competing against them in a strong market,
7 Mr. Broglie, it's probably a lot easier than if you're
8 competing against them in a market where demand is falling
9 off rapidly. Is that at least an economically rationale
10 answer or argument, I should say?

11 MR. BROGLIE: I think it is. But, you know, what
12 we're saying is that they would directly attack the business
13 that we have currently, the small portion that we have,
14 number one. Number two, the other part of it is, with the
15 Chinese mills becoming more acceptable in ratcheting up the
16 food chain of this product line, they are also going to be
17 attacking what we have left. So that's kind of what we're
18 saying.

19 MR. NARKIN: Commissioner Okun?

20 COMMISSIONER OKUN: Yes, Mr. Narkin?

21 MR. NARKIN: Yes, I'd like to add just briefly to
22 that. In our brief, we are not saying the Commission should
23 not analyze likely demand conditions. What we are saying in
24 the brief -- and actually the sentence was fairly carefully
25 drafted -- it said the question isn't whether demand is

1 high, relative to what it was five years ago.

2 We are describing for you what we see as the
3 likely demand and supply scenario. That is, continuing
4 increases on the supply side, primarily driven by China. If
5 you revoke the orders, an enormous, or at least a sizeable,
6 increase on top of that, with demand which had been
7 increasing previously, so as to offset that increased
8 supply, to some extent, now either flattening or declining
9 slight, at that point, the market goes out of balance.
10 That's the point we're trying to make.

11 COMMISSIONER OKUN: Right, and so I think, you
12 know, again, to the extend there's more information that can
13 be put on the record with regard to not only what you see as
14 demand in the U.S. market, but demand globally, I think it
15 is relevant, at least in my analysis, of whether the subject
16 countries' companies, what volumes they would chose to enter
17 this market and at what prices.

18 On that, I guess I have just one question. You
19 had a fair amount of exhibits about the instability in
20 talking about Venezuela particularly and the nationalization
21 that's gone on of oil companies there under their current
22 political leadership.

23 I want to make sure I understood the argument
24 there. Are you arguing that their production in those
25 countries is going to go down because of nationalization?

1 Because it seems to me they're still going to have to buy
2 product.

3 It's just, you know, if you're Exxon Mobil, do you
4 want to sell to them if they're really making the contracts
5 unattractive, versus that might be an opening for other
6 companies to say, you know, they've still got to produce. I
7 mean, these guys are not going to make money. They can't
8 feed these people if they don't produce oil; yes, Mr.
9 Vaughn?

10 MR. VAUGHN: Commissioner Okun, let's sort of put
11 this in context. Their argument is, we don't care about the
12 U.S. market. We're not interested in the U.S. market. We
13 don't want to serve the U.S. market. We want to serve Latin
14 America.

15 All we are asking you to do is put that argument
16 to a credibility test. You're a manager of a plant. You
17 have to keep the plant running. You have to maximize your
18 capacity utilization. You have to maximize your efficiency
19 to get your plant to run as efficiently as possible.

20 Now the orders have been revoked. You had the
21 chance to sell into the U.S. market at a time when there's
22 enormous instability in Latin America, in which it's not
23 clear from one year to the next what's going to happen in an
24 economy like Venezuela, where things are literally changing
25 on a month to month basis, as the leadership down in

1 Venezuela just announces radical changes in policy from one
2 month to the next.

3 We argue that under those circumstances, the idea
4 that you're going to turn your back on the U.S. market and
5 put all your eggs in the Latin American basket, given the
6 current instability in that market, is just not credible.
7 It's not what they're going to do. It's not what any good
8 manager would do, and it's just doesn't make sense.

9 So that's really the point. We're not saying that
10 necessarily all these markets are going to go away. We are
11 saying that the markets may not be operating very
12 efficiently in the future, and that a lot of people don't
13 think they're going to be operating very efficiently in the
14 future. Given that situation, the manager of a plant in
15 Argentina or the manager of a plant in Brazil might look to
16 the United States and say, let's start making some more
17 sales in that market.

18 COMMISSIONERS OKUN: Okay, I understand that. But
19 Mr. Stoner had responded to this in some questions about,
20 you know, again, those who make a business looking at oil
21 futures or gas futures. Again, I can't discredit the
22 comments that the downturn that is most likely is the one we
23 don't see.

24 But having said that, I think we do have to pay
25 attention to the people out there who make a living on it.

1 I may be wrong, too, but from what I understand, businesses
2 look to these forecasts, as well, to make their investment
3 decisions. While you have to be cautious, they are what
4 they are.

5 One of the things that's interesting that
6 Respondents pointed out, but I think it is interesting, on
7 the data is that we've had a very balanced global outlook on
8 the demand side; and China, while we talked a lot about
9 China coming in this market, has been a big part of the
10 increase in consumption, as well.

11 So my question, and this might go back to you, Mr.
12 Stoner, is if we look again at just oil futures, and you can
13 look at them out to 2010, at least on light sweet crude and
14 on others, they're taking these folks who are buying or
15 selling or taking into account what might be going on in
16 Venezuela and Latin America, or what might be going on in
17 China, and their forecasts have oil staying above \$60 for
18 more than the foreseeable future and probably more than
19 likely it will happen.

20 My question is, is that consistent with what
21 you're arguing elsewhere; that there is going to be kind of
22 a balanced global demand continuing in the reasonably
23 foreseeable future? Again, I think you had said it would
24 either stay steady or decrease slightly. I'm trying to make
25 sure I understand how you think it is globally.

1 MR. STONER: Yes, well, I'm looking at the
2 situation that domestic producers would face, vis-a-vis,
3 potential demand that's generated by the oil and gas
4 drilling and gathering in the United States, which is
5 obviously part of the worldwide picture.

6 But, certainly, you can't divorce sort of a global
7 picture about what the energy price is going to be from a
8 specific situation in the United States as to orders for new
9 oil and gas gathering or for petro-chemicals.

10 So, you know, I would say that that situation,
11 that there are strong indications that the domestic
12 industry, the domestic demand orders for new seamless pipe
13 is going to level off in the future. It is already leveling
14 off, and I think there's strong evidence that that's already
15 happening. You're hearing that from the industry people
16 here today.

17 I think, you know, how it plays out in the more
18 distant future, there are lots of forces there that could
19 lead to additional cycles. By 2012, I don't know what the
20 price is going to be. It could go up.

21 I think there's strong evidence before the
22 Commission that looking forward in the next year or two, it
23 seems like the market is stabilizing, and there are a number
24 of indicators of that in the forecasting area, and from the
25 industry people here as well, in terms of the orders for

1 their seamless pipe here in the United States.

2 COMMISSIONER OKUN: Okay, Mr. Hecht, my red light
3 has been on for a few moments. So let me come back and let
4 you respond on my next round; thank you very much.

5 CHAIRMAN PEARSON: Commissioner Williamson?

6 COMMISSIONER WILLIAMSON: Thank you, I just want
7 to go back to one question, and I really pose this more for
8 the industry people, as to this question of raw material
9 costs.

10 Have you and your foreign competitors been able to
11 pass on past increases in raw material costs, and how is
12 this usually done? Do you have surcharges or how do you
13 usually do this, and how do you usually cope with this type
14 of problem? What trends do you anticipate in the future
15 regarding material costs?

16 MR. BROGLIE: Okay, I'll start. As mentioned,
17 there was a step change, a major step change in 2004, on raw
18 materials, shortages in iron ore, coke, throughout the
19 world.

20 You know, our position on that is, our costs have
21 increased, but we don't have surcharges. We look at the
22 market and decide what the market pricing will be, and
23 that's how we work it. We don't have surcharges to our
24 customers.

25 MR. RAMSEY: Coppel Steel is a scrap charge

1 facility, and are costs are directly related to a blend of
2 scrap prices.

3 In 2004, we did initiate scrap surcharges for
4 about four months, and we effectively rolled those prices
5 into the selling price. That's something we've been
6 watching all along.

7 COMMISSIONER WILLIAMSON: What about your foreign
8 competitors? Have you heard how they deal with that
9 differently?

10 MR. LELAND: This is Mark Leland. I'm not real
11 sure how they deal with it. I haven't seen any surcharges
12 based on raw materials internally that comes into play,
13 where somebody would tell me that Company X has a surcharge
14 on raw materials. Nobody has told me that any specific
15 country is doing it that way. My impression would be that
16 they do the same thing we do. They raised their prices.

17 COMMISSIONER WILLIAMSON: Thank you, that's all I
18 have.

19 CHAIRMAN PEARSON: Commissioner Lane?

20 COMMISSIONER LANE: Let me follow up on the raw
21 material question. Could you please tell me the source of
22 the raw material, the steel that you use at your pipe mills;
23 is that purchased from non-affiliates or transferred from
24 affiliated operations?

25 MR. BROGLIE: At U.S. Steel, we have the internal

1 sourcing at our Fairfield facility; and at our Lorraine
2 facility, we purchase from the outside. We also can be
3 supplied from Fairfield, as well.

4 COMMISSIONER LANE: Okay, so the internal
5 transfers, what is the basis for recording your raw material
6 costs that were reported to the Commission?

7 MR. BROGLIE: I don't know.

8 COMMISSIONER LANE: Yes, sir.

9 MR. VAUGHN: Commissioner Lane, we'd like to
10 address that in the post-hearing, as it gets into some
11 confidential data.

12 COMMISSIONER LANE: Okay, fine, I'll look forward
13 to reading that, then.

14 MR. VAUGHN: Thank you.

15 COMMISSIONER LANE: Now I have some questions
16 about capacity and capacity utilization. The capacity
17 utilization that is reported in the record seems very low.
18 Can you explain why the industry seems to have so much
19 capacity that is not utilized, and why is it sitting idle?

20 MR. BROGLIE: Speaking for U.S. Steel, as I
21 mentioned in my opening testimony about the Lorraine
22 facility primarily, that facility, our number four seamless
23 mill that produces this product exclusively, has been
24 working a one shift operation for many years, although we
25 can increase that capacity by adding hours or days, which

1 we've done here in the last several years, okay? At
2 present, as I mentioned, we've cut back that facility to a
3 five day, eight hour operation. For us to add additional
4 production capability would require us to add more people,
5 and that has to be justified to do that, over the long term.
6 We're not afraid to do that, if that was the case.

7 COMMISSIONER LANE: Okay, so how do you calculate
8 then your capacity utilization? Is that based upon three
9 shifts a day?

10 MR. BROGLIE: It was based, yes, on three shifts a
11 day, yes.

12 COMMISSIONER LANE: Okay, does anybody else want
13 to take a shot at that answer?

14 MR. HECHT: I think, Commissioner Lane, and this
15 is Jim Hecht, that we probably could do that better in the
16 post-hearing brief. I think the issue we can speak about
17 publicly is one we just have, and we can address other
18 producers, as well, if you'd like, in the post-hearing.

19 COMMISSIONER LANE: Okay, thank you; I want to go
20 now to demand. Since production activity in oil and natural
21 gas usually signals increased pipeline facilities, do you
22 use active rig count and rig orders to predict demand?

23 MR. LELAND: I'm Martin Leland. The rig count is
24 one of the tools we use. We do look at rig count to give us
25 some idea of where this thing is headed, and that is one of

1 the factors, yes.

2 COMMISSIONER LANE: And do you combine that data
3 with other financial economic or business indices in your
4 analysis of expected demand for seamless pipe?

5 MR. BROGLIE: This is Les Broglie. Yes, we use a
6 number of things like rig count, oil and gas prices, other
7 economic factors to take a look at forecasts.

8 As we were discussing earlier, there are a number
9 of publications out there that have all this data. How it
10 translates into specifically the small diameter product, it
11 is difficult to get forecasting on that particular product,
12 because there's more data on the oil country product, per
13 se. But we take a look at all of those factors when we're
14 trying to make our forecast.

15 It is difficult because of the wide range of
16 information that is out there. It's worldwide information,
17 and as recently as last year, there were reports about the
18 global demand slowing and those kinds of things. That had
19 an impact on the oil prices.

20 COMMISSIONER LANE: Okay, the rig count, both in
21 the United States and worldwide, has been up over the last
22 three or four years. Is the rig count currently increasing,
23 or have you seen a downward trend?

24 MR. BROGLIE: We've seen the same trends that
25 you're talking about in some of the forecasts that are out

1 there. There was some decline toward the end of last year,
2 but it's been relatively high, and the majority of those
3 rigs are working on gas drilling here in the United States.

4 But again, those are reports that we use and take
5 one of those as a variable in how we take a look at our
6 business. But it still gets back to the number of orders
7 that we have from our customers, like Mr. Durham and Mr.
8 Bender, on how we set up our business to run.

9 COMMISSIONER LANE: Has the downward trend in oil
10 and natural gas prices over the last six months been
11 reflected in the active drilling rig count?

12 MR. LELAND: I, personally, haven't noticed it. I
13 don't know if Tom has or anything. For that short a period
14 of time, the rig count is not going to -- again, you know,
15 when you said oil has plummeted to \$55 or \$56 dollars,
16 that's not exactly plummeted, when you've been around for 40
17 years and seen \$10 oil.

18 The main thing in our analysis in the country
19 though, as we look at it, our business on the oil country
20 side is driven by gas. Oil is part of it, but gas is the
21 big player with the seamless product on the oil country
22 side, which could fall back into this product for flow line
23 and stuff.

24 COMMISSIONER LANE: Mr. Hecht?

25 MR. HECHT: Just quickly, this is Jim Hecht. I do

1 think you've seen some advisories in the drilling world, in
2 term of forecasts for future drilling, based on some of the
3 declines you've seen. Also, request is raised with regard
4 to declines in natural gas. Is it still at a sufficient
5 level to incentivize new projects going forward? So I think
6 we try to cite some of that in our brief, and can try to do
7 some more of that, as well.

8 COMMISSIONER LANE: Okay, I want to go back to Mr.
9 Durham. Some questions were raised about when you buy your
10 product from a foreign source, and the lead times on
11 actually getting the product. In your business, what sort
12 of lead time do you operate on from the time that you order
13 product, that you want it so that you keep a certain level
14 of inventory in stock?

15 MR. LELAND: On imports, it's probably 90 days, as
16 an average time that we look at them.

17 COMMISSIONER LANE: So if you have 90 days of
18 inventory right now, you could place a huge order and source
19 it from a foreign source tomorrow, and it would probably get
20 here by the time you use your current inventory?

21 MR. LELAND: That's correct. In a general sense,
22 that's the way we look at it. You always have to have
23 something coming in the pipeline, so to speak. You've got
24 to base your estimates on the fact of what you've got that
25 you're going to sell it, and that you've got to replenish

1 it. So yes, I think that's the way everybody does it, yes.

2 COMMISSIONER LANE: Okay, now I hesitate to ask
3 you this question, but I'm just sort of curious. If you buy
4 U.S. product at \$1,200 a ton, I think was the price that was
5 thrown out there, and you buy Chinese product at \$600 a ton,
6 and you find someone that really doesn't care that they're
7 buying Chinese product, do you sell it to them at a
8 comparable price that you would have to sell the U.S.
9 product for? If you can't answer that, you can put it in
10 your post-hearing brief.

11 MR. DURHAM: No, I can answer that. The numbers
12 aren't exactly \$600 a ton and \$1,000 a ton. Let's just say
13 that there's a \$600 a ton difference.

14 If we have Chinese material that we can sell to
15 someone for the same price we're selling domestic material
16 for, we're certainly going to do it. But I don't know when
17 that's happened. It may have at some point in time. But
18 that would be a real coup. If someone has some advise on
19 how we would go about doing that --

20 (Laughter.)

21 COMMISSIONER LANE: Okay, thank you; thank you,
22 Mr. Chairman.

23 CHAIRMAN PEARSON: Mr. Broglie, let me go back to
24 a question that Commissioner Lane had touched on. Either
25 now or in the post-hearing, could you let us know when was

1 the last time that a second shift was being run regularly at
2 Lorraine and a third shift?

3 MR. BROGLIE: Yes, we can give it to you in post-
4 hearing, but it's been years.

5 CHAIRMAN PEARSON: Okay, I thought it might be far
6 enough back.

7 Mr. BROGLIE: It was before my time, definitely.

8 CHAIRMAN PEARSON: Okay, looking in the other
9 direction, can you envision circumstances in which a second
10 shift would be run at Lorraine? I understand it's
11 technically possible. But what would it take for you to
12 decide to do that?

13 MR. BROGLIE: It would have to be some sustained
14 demand and information from our commercial folks that say,
15 this product line has a sustained demand, and we were
16 continually over-booked to the point where lead times were
17 way out there. Customers were getting frustrated with, you
18 know, deliveries, and those kind of things. It would have
19 to be a sustained level, in our opinion.

20 We've done this in the past. It's a leap of faith
21 because we have to bring in new people, which we're not
22 opposed to doing. But there's a huge training and learning
23 curve that has to go on, and we don't want to dilute the
24 operation we are running now, because they're running very
25 strong.

1 So I mean, there's a whole lot of factors that go
2 into it. But it would have to be something sustained,
3 because we didn't go through the efforts that Mr. McCall
4 talked about, all the downsizing and their streamlining to
5 bring people in, and then six months later have to say,
6 you're laid off. That would be the worst thing we could do.

7 CHAIRMAN PEARSON: In terms of your order book
8 now, relative to a year ago, do you have a stronger order
9 book now than before?

10 MR. BROGLIE: No, it's much weaker.

11 CHAIRMAN PEARSON: Weaker?

12 MR. BROGLIE: Yes, we're in a "take order" mode
13 right now, as we speak.

14 CHAIRMAN PEARSON: Okay, and when did that turn?

15 MR. BROGLIE: It turned the fourth quarter of last
16 year.

17 CHAIRMAN PEARSON: Okay.

18 MR. BROGLIE: It started going down, yes.

19 CHAIRMAN PEARSON: But relatively recently?

20 MR. BROGLIE: Yes.

21 CHAIRMAN PEARSON: Okay, shifting gears, earlier
22 there was discussion of political instability in South
23 American, and I think particularly in Venezuela, and the
24 implications that might have for demand for Argentinean and
25 Brazilian product.

1 Is that concern somewhat counter-balanced by the
2 fact that Venezuela has recently joined Merkeser (ph), the
3 Customs union that includes Argentina, Brazil, Paraguay,
4 Uruguay, and maybe one or two others? Because my
5 understanding of Merkeser (ph) would be that if Venezuela
6 now has duty-free access -- rather, let me turn it around.
7 Argentina and Brazil have duty-free access to the Venezuelan
8 market which is, I think, the largest energy-producing
9 market in South America.

10 Doesn't that suggest that they might have a better
11 marketing alternative for their product than shipping it
12 into the United States?

13 MR. VAUGHN: First of all, just to sort of put
14 this in context, last year, we have in Exhibit 2 in our
15 brief, Argentina exports of seamless pipe products to all
16 countries, based on the World Trade Atlas data.

17 So to put this in context, last year, for example,
18 they shipped -- and this is all products, I think. It
19 includes some larger diameter stuff. So last year, for
20 example, they shipped 30,650 tons to the United States, and
21 they shipped 5,676 tons to Venezuela. For the first 10
22 months of 2006, they shipped 1,529,000 tons to Venezuela and
23 18,000 tons to the United States.

24 So I think when you look at the situation and what
25 they're doing in the real world, it just shows that this

1 market is just an incredibly valuable market compared to
2 some of the other markets that they can go into.

3 For example, I mean, if you look at Metal Bolts
4 and Research -- and again, these are overall numbers. These
5 just don't go to small diameter seamless. But just to give
6 you a sense, apparent consumption of seamless pipe in
7 Argentina in 2005 was 227,000 tons. They made 863,000 tons.
8 The U.S. apparent consumption was 3,221,000 tons.

9 So, again, we would really challenge you to sort
10 of look at the credibility of these statements. Is it
11 credible to say we don't want to be in the U.S. market?
12 We'd rather be in a market like Venezuela, when they're
13 already shipping more here than they are to there; when this
14 is a much bigger market here than it is there; when they are
15 a huge net exporter and the U.S. is a net importer? It's
16 just not credible whether they join Merkeser (ph) or not.

17 I mean, the numbers and the instability in
18 Venezuela is really only a part of that. If you just look
19 at the overall market, and you look at the way they're
20 behaving now, and you look at the importance of this market
21 relative to other markets, we just think it's obvious that
22 this is the best and most attractive market, and the most
23 attractive market for them and for their products; which is
24 exactly, by the way, what Tenaris said, for example, when it
25 bought Maverick.

1 CHAIRMAN PEARSON: Well, but keep in mind, I'm not
2 sure how valuable historic data is, given that Venezuela
3 joined Merkeser (ph) so very recently. I'm not even sure
4 whether the common external tariff has yet been applied by
5 Venezuela, although perhaps Respondents will have some
6 information on that for us this afternoon.

7 But if Venezuela is indeed applying a common
8 external tariff to imports from non-Merkeser (ph) countries,
9 than it may have little good alternative but to buy, going
10 forward, its pipe requirements from a producer, either in
11 Argentina or Brazil, because the common external tariff may
12 make imports from other origins non-competitive.

13 So I don't place a lot of validity on historic
14 trade patterns, when those countries are going through what
15 would seem to me to be a major alignment in tariffs. So if
16 you want to add something in the post-hearing, that would be
17 fine, because you may be able to refute the concerns that I
18 raised. But I offer that caution to your analysis.

19 MR. VAUGHN: Absolutely, and I would point out,
20 for example, that Columbia, which I think that is another
21 Merkeser (ph) country --

22 CHAIRMAN PEARSON: No, it's not. Columbia is
23 negotiating a Free Trade Agreement with the United States.
24 In fact, the negotiation is completed. We've even completed
25 our 90/90 study. Perhaps Congress will even implement

1 agreement within the reasonably foreseeable future.

2 MR. VAUGHN: Well, we will address this in the
3 post-hearing. But I would point out that, you know, up to
4 this point, they have shown very much a willingness to come
5 into the U.S. market. That's what they've said, and that's
6 what they've told their shareholders. But we will address
7 this in more detail in the post-hearing.

8 CHAIRMAN PEARSON: Okay, thank you; shifting gears
9 again, there's been quite a bit of discussion about pricing
10 of Chinese product. You have made the case that you're
11 starting to see or anticipating a shift in quality of
12 Chinese product such that it would compete more directly
13 with U.S.-produced product and not compete more at a lower
14 end level.

15 Do we see this on the record now, or is this
16 something that you are expecting to happen in the future;
17 this shift of Chinese product to higher end -- you know, to
18 more direct competition with U.S. producers for their
19 current customer base?

20 MR. DURHAM: Well, I would say we see some of that
21 now.

22 CHAIRMAN PEARSON: Okay, so the transition is
23 under way, as you see it.

24 MR. DURHAM: Yes.

25 CHAIRMAN PEARSON: Okay, and yet we still see all

1 of this price strength in the U.S. market. So it must be,
2 at this point, a relatively slow transition for the Chinese
3 into the more upper scale markets.

4 MR. DURHAM: Well, I think as I mentioned earlier,
5 on the approved list, if you're a company that has an
6 approved list, and you know that there is a huge gap in the
7 marketplace between material from China and material from
8 the other people that are on your list -- and let's say
9 you've got six on your list, and some of these lists have 12
10 and 15 mills on them; but whatever you've got on there -- it
11 would behoove you probably to say, hey, you know, we need to
12 start looking around a little bit over there in China and
13 see if there are not some good quality mills and let's get
14 them on our list. Because, you know, we can save a lot of
15 money when we do that.

16 CHAIRMAN PEARSON: Right, now I understand the
17 underlying dynamic that could lead to this. But what I'm
18 trying to figure out is whether we can make the assumption
19 that in the reasonably foreseeable future, in the next year
20 and-a-half or two years, that we would see enough of that
21 shift so that it would have an effect on the domestic
22 marketplace here in the United States. So if you've got
23 anything that you can put on the record post-hearing in that
24 record, that would be great.

25 MR. VAUGHN: We will be happy to do that.

1 CHAIRMAN PEARSON: Thanks, Mr. Vaughn.

2 My light is changing; Madam Vice Chairman?

3 VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman.

4 I have hopefully just a few more questions. As
5 you know, one of the things that we look at in terms of
6 likely volumes of imports is whether there would be an
7 incentive for subject producers to shift exports that
8 they're currently sending to other markets into the United
9 States, and we've talked about that some.

10 We have some relative pricing data. It's in Table
11 422 of the staff report, and it's confidential. So I can't
12 say too much about it. But just to characterize it very
13 generally, and I think it deals with somewhat broader range
14 products as well, there's some evidence there that over much
15 of the period that we reviewed, prices in Europe and Japan
16 have been somewhat higher than prices in the United States,
17 and there's been some narrowing of that gap toward the end.

18 As we look forward into the reasonably foreseeable
19 future, given that track record, how should I look at the
20 question of whether there's going to be a price incentive to
21 shift product that might be going into Europe or Japan or
22 other places to the United States?

23 MR. NARKIN: This is Steve Narkin. I guess I have
24 just one quick comment. As I'm sure you realize, we discuss
25 at some length in our prehearing brief the data that you get

1 out of the questionnaire response, which is I think more
2 detailed by export market, but more importantly, is really
3 specific to this product, and we think that tells a very
4 compelling story as to showing you exactly where they have
5 an incentive to shift from one market to another, from one
6 market to here.

7 MR. HECHT: Jim Hecht -- just to add to that, as I
8 think Steve mentioned, obviously, you have a UV data on the
9 record, which is not perfect. But I think when it tells a
10 pretty consistent story, and I think it does here, you can
11 look at the other markets that these folks are selling to
12 and you can compare it to AUVs in the U.S., and that gives
13 you a sense, I think, from some of the metal bulletin data.

14 I think it's true that it does show European
15 markets being comparable and maybe Japan, as well. But then
16 it shows a number of other markets quite a bit lower and
17 consistently through time.

18 I think there's also, on the confidential record,
19 some pretty interesting statements about the situation in
20 Europe and some of the challenges they face as well, which
21 we've cited and we'll emphasize again in some of our post-
22 hearing materials.

23 VICE CHAIRMAN ARANOFF: Okay, thank you.

24 MR. BROGLIE: I think that gets back to the issue
25 where these companies will want to offer the global

1 solution, and here in the United States, they're not
2 presently being able to do that for their customers.

3 VICE CHAIRMAN ARANOFF: Okay, right, but if you
4 want to offer a global solution, you don't want to take
5 product away from somebody you're already selling it to, to
6 sell it to somebody else. You want to do both, so that's a
7 different situation.

8 Okay, thanks, I have one question that came up
9 when I was reviewing the staff report, if you take a look at
10 Table 4-21 in the staff report, this is Preston Pipe data,
11 which I understand from the staff that, although they were
12 originally bracketed, are in fact public.

13 The conventional wisdom with respect to this
14 industry, and this is something that Commissioner Hillman
15 raised earlier, is that there is kind of a product
16 hierarchy, with OCTG commanding the highest price, and then
17 maybe line pipe, maybe standard pipe below.

18 The data in Table 421 does not seem consistent
19 with that conventional wisdom. If you take a look at them,
20 they show that standard pipe prices are often exceeding
21 prices for line pipe and even OCTG in the U.S. market within
22 the relevant diameters. Does that mean that something has
23 changed in the market or that something is wrong with the
24 data? If you can't answer it now and you want to go back
25 and look at it more detail -- I'm just trying to decide, can

1 I rely on the data in that table, or do they just not make
2 sense?

3 MR. HECHT: I think that's a good question. We
4 will take a look at the data. I'm not sure I have a good
5 answer to that here. I don't know if others do.

6 VICE CHAIRMAN ARANOFF: Okay, I appreciate that.
7 Because I guess if the answer is that the data are good and
8 they tell me that there's been a big change in the market,
9 it affects how people's incentives are to allocate their
10 capacity between these products in a way that we haven't
11 seen before; okay, thanks.

12 One last question. One of the discussions that
13 we've been having about China this morning has been, well,
14 right now, the Chinese product is really having its effect
15 at the low end of the market. But we've also had people
16 testify that there are some Chinese companies that are, you
17 know, world class or getting to be world class, who are
18 going to move up that value chain and be accepted.

19 What kind of a timeline are we looking at? I
20 mean, if I were to look out two years, what's the likelihood
21 that I would see a substantial volume of Chinese product
22 available on AMLs or, you know, of that quality?

23 MR. BINDER: Larry Binder. The Chinese are
24 already on AMLs. Exxon Mobil, they're on that now. The
25 thing you've got to understand and what Jim was saying is

1 Exxon Mobil kind of sets the standard in the industry, along
2 with ConocoPhillips. They're AMLs. And when fabricators do
3 work, they have to do their work and buy the product
4 comparable to what Exxon or ConocoPhillips specifies.

5 Now then, when that is approved, like Exxon has
6 approved the Chinese mills -- Tien Jin is one of them --
7 when they approve that, that's kind of an industry standard
8 now. People will say to us, well, when they're buying pipe
9 to do construction work for anybody, they'll say, well,
10 we're using the Exxon Mobil AML. So that opens the door up.
11 But what they're tell us, they'll take Tien Jin pipe or any
12 other Chinese pipe.

13 So like Jim was saying, it's already started, and
14 we're getting calls. A lot of fabricators are saying, we'll
15 use the Exxon Mobil's AMLs. So then that's telling us,
16 they'll take Chinese pipe. I don't know if that answers
17 your question, but it's in existence right now. And the
18 more that is used in the industry, it will pick up. I would
19 say in a year from now, it's going to be a drastic increase.

20 VICE CHAIRMAN ARANOFF: Okay.

21 MR. BINDER: My opinion of that would be that with
22 the type of mills they are building or already operating,
23 it's going to happen and it's going to happen quickly.

24 VICE CHAIRMAN ARANOFF: Okay, Mr. Hecht?

25 MR. HECHT: If I could just make a slightly

1 unrelated point, but I think an important one to consider,
2 as we do see this increase and surge in Chinese shipments
3 here, and we also see them moving up the value chain, we
4 also see a tremendous amount of evidence that there may be
5 unfair trade involved with that. I think it's not a secret
6 that the industry has expressed concern about that.

7 So one thing we will be looking at in the year
8 ahead, and I think even with USTR, are some of statements
9 they've been making in term of concerns with subsidies, is
10 to take a look at that.

11 VICE CHAIRMAN ARANOFF: Okay, I appreciate that
12 answer. With that, I think that's all the questions that I
13 have. I do want to thank the morning panel very much for
14 all your help this morning; thanks, Mr. Chairman.

15 CHAIRMAN PEARSON: Commissioner Hillman?

16 COMMISSIONER HILLMAN: I have no further
17 questions, but would want to join my colleagues in thanking
18 you all very much for your many good answers and for your
19 perseverance until 1:30 in the afternoon; thank you.

20 CHAIRMAN PEARSON: Commissioner Okun?

21 COMMISSIONER OKUN: Thank you, I believe that most
22 of what I had wanted to cover, including this question about
23 the relative prices from OCTG and standard and line pipe,
24 were covered.

25 But I know you've argued that, Mr. Hecht. In your

1 post-hearing, if you can just keep in mind, if the chart in
2 the staff report is not really good data and that, in fact,
3 OCTG is still the higher valued product, if you can just go
4 through your product-shifting argument with regard to the
5 subject countries, I'd appreciate looking at that again,
6 keeping in mind what we said actually in the Spring cases,
7 if you can address what the Commission had to say there with
8 regard to product shifting.

9 Then, I guess, I have just one final request, and
10 probably just a follow-up, again, on looking at demand
11 globally and in the U.S. market, if there's anything you can
12 add with respect to the reg count projections, as well as
13 projections for drilling projects. Because I think my
14 information is very dated.

15 But I recall that most of the majors will say,
16 even in their filings, if oil prices are above "x", we will
17 pursue the following kind of higher risk projects; you know,
18 the sour wells, the things that cost some money, that you
19 don't pursue if oil is where it was awhile ago.

20 It's the same with regard to gas. I think the
21 figure used to be \$4. You know, if it's below \$4, you
22 pretty much start ratcheting down really quickly. If it's
23 above, you still pursue some projects, and depending on how
24 far above it is, you pursue more and different projects.

25 So if there's anything out there that's current,

1 because I don't see it in this record that. Because again,
2 keeping in mind, at least with regard to future prices, I
3 would appreciate it.

4 With that, I very much want to thank all of you
5 for all the answers you've given, and I will look forward to
6 the post-hearing briefs; thank you, Mr. Chairman.

7 CHAIRMAN PEARSON: Commissioner Williamson,
8 anything further?

9 COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman;
10 no, I have further questions, and I would like to join my
11 colleagues in thanking the panel for their cooperation and
12 their thoroughness.

13 CHAIRMAN PEARSON: Commissioner Lane?

14 COMMISSIONER LANE: I do have a couple of
15 questions. I hate standing between everybody and lunch, but
16 I do have two questions.

17 It would appear that the market for this product
18 relates to the oil and gas industry. We know that the oil
19 and gas industry is a boom and bust market. Apparently,
20 right now, we may be in the good times.

21 But could you tell me whether or not there is a
22 business cycle for this product, and where we are in that
23 cycle, and how a business cycle would affect what we do in
24 this case; Mr. Hecht or Mr. Vaughn?

25 MR. HECHT: Commissioner Lane, I guess I'm

1 probably not the best person to assess the cycle. I would
2 characterize what you've seen obviously as a period of
3 relatively strong demand in the past few years; and I think
4 you've heard testimony today of concern that we may be on a
5 downward path from that.

6 Statutorily, you are, of course, charged with
7 analyzing the likely effect in the context of the business
8 cycle, and I think that is relevant.

9 Again, to this point, we talked about at the
10 outset that while an industry may be performing reasonably
11 well, in part because of strong demand and the environment
12 it's in, that nonetheless may be masking effects. If you
13 would see material changes, even from off a higher level,
14 that is injury under the law and, in our view, would compel
15 an affirmative finding.

16 COMMISSIONER LANE: Okay, thank you; and my last
17 question, and you can either answer it now or in your post-
18 hearing brief.

19 Could you compare and contrast the current
20 conditions of competition from the original investigations
21 and first reviews? Would you say that the conditions of
22 competition are the same or much different; and if
23 different, please explain.

24 MR. VAUGHN: Commission Lane, we will address that
25 primarily in the post-hearing brief. I mean, the one sort

1 of thing that really jumps out at you, when you look at the
2 data, is five years ago, China was almost unknown in this
3 market. Now, as you hear, they are one of the major forces
4 in the market. So that's a tremendous change that's
5 obviously been deleterious to the domestic industry. But we
6 will address all this in more detail in the post-hearing
7 brief.

8 COMMISSIONER LANE: Okay, thank you; thank you,
9 Mr. Chairman.

10 CHAIRMAN PEARSON: Are there any further questions
11 from the dias?

12 (No response.)

13 CHAIRMAN PEARSON: Okay, do members of the staff
14 have any questions for this panel?

15 MS. HUGHES: Rhonda Hughes, Office of General
16 Counsel -- I have one question for Mr. Durham. You had said
17 that you expect the trend will continue that more and more
18 pipe that's not on the AMLs will enter the marketplace. Can
19 you say when this trend started?

20 MR. DURHAM: It probably started with -- I'm
21 trying to think now. The Chinese pipe started coming into
22 the Gulf Coast -- there's always been a lot of Chinese pipe
23 on the West Coast -- I don't know, five or six years ago.

24 MS. HUGHES: You're talking insignificant numbers,
25 I gather, not just --

1 MR. DURHAM: So if you look at the data, I think
2 the significant numbers have really happened in maybe the
3 past couple of years.

4 MS. HUGHES: And how fast is this growing? Do you
5 expect it to continue to grow at the same trend that it's
6 been growing in the last two years, five years, or what?

7 MR. DURHAM: Well, I believe that in the past year
8 from China -- and someone correct me if I'm saying wrong
9 here -- that it has doubled, basically doubled in tons.
10 From the past year, it's doubled in tons, maybe from 2006
11 versus 2005. That's pretty significant. I think it's going
12 to continue to grow.

13 Now whether it's going to double in the next year
14 or so, I really don't know. But I would say this, it
15 wouldn't surprise me.

16 MS. HUGHES: Thank you very much; the staff has no
17 further questions.

18 CHAIRMAN PEARSON: Do Respondents have any
19 questions for the domestic industry panel?

20 MR. SPAK: No questions.

21 CHAIRMAN PEARSON: Okay, then I think we should
22 break for lunch. In honor of Commissioner Okun's birthday,
23 and knowing that she likes a more relaxed lunch period, we
24 will take a full hour, reconvening here at 20 minutes to
25 3:00. This hearing is recessed.

1 (Whereupon, at 1:41 p.m., a lunch recess was
2 taken.)
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1 of Argentina, and that really, and the information
2 about Argentina and why we believe that to be the
3 case, will be the subject of Mr. Balkenende's
4 testimony, as he describes Siderca and the Tenaris
5 operations. Thank you.

6 MR. BALKENENDE: Good afternoon, Mr.
7 Chairman, Commissioners, and Members of the Commission
8 staff, my name is Roland Balkenende. I am president
9 and general manager of Tenaris Global Services (USA)
10 Corp. and the director of the process and power plant
11 services, one of the global business units of the
12 Tenaris Group.

13 The Tenaris Group includes the Argentine
14 seamless pipe producer, Siderca, as well as pipe mills
15 in the United States, Italy, Mexico, Japan, Canada,
16 Venezuela, Brazil, Colombia, and Romania.

17 I've worked for Tenaris for six years.
18 Prior to that, I worked at the global pipe
19 distributor, Fileo (ph) Pipe & Tube, and for the past
20 16 years, while at Tenaris, and for 11, I've been
21 based in Houston, Texas.

22 It's great to be here at the Commission when
23 times are good. The U.S. economy is doing well. The
24 energy sector is very strong, is booming. Oil and gas
25 prices are projected to remain at high levels. The

1 U.S. seamless pipe industry has achieved record
2 results, and it has done this while imports from other
3 countries have entered the market.

4 This is the context for the Commission's
5 consideration of whether to extend or revoke the 12-
6 year-old antidumping order on Argentina and the other
7 countries.

8 My presentation will address only Argentina
9 and focus on specific reasons why the order on
10 Argentine small-diameter SLP should be revoked.

11 I will make three basic points. First,
12 Siderca and Tenaris have changed a lot since you last
13 reviewed our companies, and those changes are relevant
14 to your review.

15 Second, Siderca has no volume to ship to the
16 United States, and it has no reason to change its
17 current successful strategies in the world market.

18 Third, even if Siderca were to ship any
19 small-diameter SLP in the U.S. market after revocation
20 of this order, Siderca would not undercut the market
21 prices in the U.S.

22 Let's turn first to Siderca and Tenaris:
23 The Tenaris approach to this segment of the seamless
24 pipe business and the most relevant changes related to
25 the SLP products under consideration.

1 We have to start with the changes in the
2 energy sector globally, as this is directly related to
3 Tenaris's approach to this market. Energy is a
4 priority sector in almost every country around the
5 world. Government and private investment is growing,
6 and the nature and scale of those investments are
7 increasing.

8 Furthermore, the tubular requirements for
9 those energy projects are increasingly complicated.
10 Most relevant for the tubular products being discussed
11 in this proceeding, small-diameter SLP, are the
12 petrochemical, gas-processing, and refinery
13 construction projects. These are mega projects with
14 significant tubular requirements.

15 Tenaris grew out of these changes in the
16 energy sector. Tenaris was formed in 2002 as a
17 company that would bring together the resources of
18 pipe mills in several countries in order to provide
19 the energy sector the tubular products and services
20 that they require.

21 In the small-diameter SLP segment, the
22 Commission staff report, at page 25, correctly
23 identifies six end use markets for small-diameter SLP:
24 one, oil and gas transmission; two, the construction
25 of refining facilities; three, the repair of refining

1 facilities; four, the chemical industry; five, power
2 generation; and, six, mechanical applications for
3 general construction.

4 For the products under consideration,
5 Tenaris focuses only on the second of the end use
6 markets, which we would describe as supplying
7 petrochemical, gas-processing, and refinery
8 construction projects throughout the world.

9 This is a very specialized segment which
10 requires a lot of dedication and effort. We analyze
11 where these projects will occur and dedicate the time
12 and resources necessary to become the provider of
13 tubular products for these projects. Also, we aim at
14 supplying these projects which a full range of
15 seamless pipes.

16 For this, the Tenaris Group utilizes various
17 mills in different countries to achieve this goal.
18 Each mill has its unique capabilities. Within each
19 mill, there are different production lines, each with
20 its own efficiencies. The art of what we do in the
21 global business unit, process and power plant
22 services, is to match the rolling capacities and these
23 efficiencies with the construction schedules of the
24 new greenfield construction projects. Siderca, and
25 especially the small-diameter line that we call LICO

1 1, plays a key role in this process.

2 A third major change since the antidumping
3 order went into effect and since the last census
4 review is that Tenaris has invested in the United
5 States. In October 2006, Tenaris acquired Maverick
6 Tube Corporation, a welded pipe producer, for \$3.2
7 billion. The investment in Maverick is very important
8 because it gives Tenaris and the U.S. pipe market an
9 understanding of the U.S. industry that we did not
10 previously have.

11 We are a domestic producer of welded
12 tubulars, and we have a duty to our shareholders and
13 our workers to act responsibly in the production and
14 marketing decisions that we make.

15 Finally, it is clear that the U.S. industry
16 producing seamless tubulars has also changed over this
17 period. The industry has consolidated, and it has
18 enjoyed the benefits of the higher prices of oil and
19 gas. The financial statements of U.S. Steel and
20 Koppel demonstrate that they have made good decisions,
21 too. They are recording record profits from seamless
22 tubular sales.

23 Volume. With the background on the changes
24 in the market and the changes in Siderca and Tenaris,
25 let's turn now to the issue of participation in the

1 U.S. market for small-diameter SLP. What is the
2 likelihood that Siderca would ship significant volumes
3 of small-diameter SLP to the U.S. if this order is
4 revoked?

5 In my opinion, the chance of significant
6 volume is very small, and let me explain that. First,
7 Siderca has no capacity available. Siderca is working
8 at full capacity, a fact that the Commission will see
9 in the data that Siderca provided. Further, in the 12
10 years since the original investigation in this case,
11 Siderca has not expanded capacity and will not expand
12 capacity.

13 Siderca has two pipe production lines: LICO
14 1 and LICO 2. Siderca only produces small-diameter
15 SLP on LICO 1, and, for clarification, during the last
16 five years, Siderca has not produced a single ton of
17 four-and-a-half-inch pipe on LICO 2, and this is not
18 likely to change.

19 Second, contrary to what the U.S. industry
20 stated in its brief, Siderca does not maintain
21 inventories of these products. For export sales,
22 Siderca produces products for which it already has a
23 purchase order. In this circumstance, pipe is not in
24 inventory but is stored in the finished good yards
25 while awaiting shipment to a customer.

1 For the home market, Siderca also produces
2 against a purchase order, or it produces for its
3 regional customer service centers, but this is not
4 available inventory. It is inventory for a specific
5 use, for a specific customer, kept in a specific
6 region so that it can be supplied to the customer on a
7 just-in-time basis.

8 Third, Siderca has made investments that
9 result in the production of more high-value-added,
10 nonsubject projects, and fewer commodity products.
11 Examples of these products are premium joints, cold-
12 drawn, certain mechanical pipe, and OCTG.

13 For the last five years, Siderca has made
14 substantial investments in finishing operations that
15 have not expanded its production capacity but,
16 instead, have enabled Siderca to produce more of these
17 premium products, which do not include small-diameter
18 SLP. We have provided details on these investments in
19 our brief.

20 As a result of these investments, we have
21 made choices about where and how we sell our products.
22 We have chosen to participate in the market for
23 projects rather than the spot market for commodity-
24 grade products.

25 We also do not have any incentives to

1 participate in the U.S. small-diameter SLP market.
2 First, as explained above, Tenaris is focused on the
3 project market. I agree completely with the
4 Commission staff report when it observed that most of
5 the small-diameter SLP pipe consumed in the U.S. is
6 dedicated to maintaining or upgrading existing plants
7 rather than building new plants.

8 To a large extent, the U.S. market is a
9 maintenance market, and that is not a target market
10 for Tenaris. We used to be in this market in Europe,
11 but we have gotten out of this market in order to
12 focus on the worldwide projects market.

13 In order to ship small-diameter SLP to the
14 U.S. market, we would have to take capacity away from
15 our target markets, which does not make business
16 sense. We see our capital project markets around the
17 world growing.

18 Contrary to what the U.S. industry has said,
19 we have not lost market share to producers from China
20 and our target markets.

21 Second, if any reason arose for Tenaris to
22 supply the U.S. market, which we do not foresee, we
23 could supply this market from other sources. There
24 are no restrictions on our mill in Canada, for
25 example, and we can also supply some of this product

1 from Tamsa in Mexico. We have supplied small amounts
2 from these mills on an occasional basis, but we have
3 never flooded the markets, as the U.S. industry warns
4 will happen in this case.

5 Why? Because our focus is on the project
6 market, and the United States is expected to have a
7 declining share of the global project market. We can
8 provide the Commission with our forecast in this
9 regard in the post-hearing brief.

10 The U.S. industry question asked the
11 Commission to be suspicious of Siderca. We ask that
12 you go beyond the suspicion and dig into the facts.
13 We are confident that you will see that Tenaris has
14 earned credibility on this issue.

15 In early 2006, the U.S. industry warned of a
16 flood of small-diameter SLP from the Tenaris mill in
17 Mexico. The Commission believed Tenaris's
18 projections, and, to date, not a single ton of this
19 pipe has entered the United States.

20 Also, as stated above, Tenaris's mills are
21 already able to supply the small-diameter SLP markets
22 without restriction, yet the shipments to the U.S.
23 market have been small. There is simply no incentive
24 for Siderca to ship this product in significant
25 quantities to the United States.

1 Before concluding, I would like to address
2 the issue of price and, more specifically, the
3 question whether Argentine imports, if they were to
4 appear in significant volumes, would have an adverse
5 impact on the prices in the U.S. market. The answer
6 is no, and some of the reasons relate to the previous
7 discussion of the Tenaris approach to the small-
8 diameter SLP markets.

9 First, any Argentine products cannot have a
10 significant impact on U.S. prices because, as we have
11 explained, the volumes will not be significant. In
12 fact, we project that the volumes will be zero or
13 nominal for the foreseeable future, so a significant
14 price effect is not possible.

15 Second, the Tenaris focus on supplying
16 global projects is with purpose. Our pricing data
17 demonstrate that Siderca maximized its contribution
18 and earnings by dedicating the available small-
19 diameter SLP to global projects. There would be no
20 reason for Siderca to forego its strategic project
21 market in order to penetrate a nontarget market.

22 In addition, the Commission staff has stated
23 in its report that prices in some other markets are
24 higher than the U.S. market.

25 Finally, as a result of Tenaris's investment

1 in Maverick, we have an awareness of the U.S. market
2 that we did not previously have. We will not import
3 into the U.S. at prices that could have a negative
4 price effect on the U.S. pipe market.

5 I would like to conclude my testimony by
6 first thanking the commissioners for the opportunity
7 to tell the Tenaris story. We are a company that has
8 grown and invested in the local and regional markets.
9 We invest a lot of time and effort in developing our
10 markets, and we have developed strong fundamental
11 strategies for providing our customers with high-
12 quality products and services.

13 In the small-diameter SLP segment, our focus
14 is petrochemical, gas-processing, and the refinery
15 projects, and we have been successful in developing
16 these markets. This focus has not brought us to the
17 U.S. market, and it is unlikely to cause us to ship
18 significant volumes to the U.S. market in the future.

19 At the same time, we have demonstrated our
20 commitment to the U.S. tubular market. We are
21 committed to growing our business through our Maverick
22 acquisition as the latest strategic addition to the
23 Tenaris Group.

24 Thank you for your time today, and I welcome
25 your questions and any further clarifications.

1 MR. HERLACH: Good afternoon. My name is
2 Mark Herlach. I'm with the law firm of Sutherland
3 Asbill & Brennan, and I'm accompanied here today, on
4 my right, by Michael Herminghaus, who is the president
5 of Benteler Steel and Tube Corporation, and, on my
6 left, by my colleague, Leanne Cowen. We represent the
7 Benteler Group.

8 Two opening observations that are almost too
9 obvious to bear repeating, but I'll make them anyway.
10 First is the enormous strength of the market for
11 energy in the world today, and, as you've heard,
12 everybody agrees that the market for standard, line,
13 and pressure pipe is a function of the energy markets.

14 So, despite the fact that there was some
15 commentary this morning that perhaps oil prices had
16 receded a little bit, and gas prices had come down a
17 little bit, I think it's quite clear, if you read the
18 literature, that every single respectable forecaster
19 recognizes that energy prices are going to remain high
20 for the foreseeable future, and that means the price
21 of oil and the price of gas, and, as a result, there
22 is going to be terrific opportunity for all of the
23 companies before you in this room to continue to
24 prosper and do well, as they have in recent years.

25 The second observation is that what you

1 heard this morning was obviously a case on China.
2 It's sort of remarkable in its focus on a third-
3 country importer, and I would simply submit to you
4 that we would like you to focus on this case, not on
5 the case against the Chinese that the domestic
6 industry has thus far been unwilling to bring before
7 the Commission. Presumably, there will be a time for
8 that. That is not this afternoon.

9 Now, I would like to introduce Mr.
10 Herminghaus.

11 MR. HERMINGHAUS: Good afternoon, ladies and
12 gentlemen. My name is Michael Herminghaus. I am
13 president of Benteler Steel and Tube Corporation in
14 Houston, the North American sales and marketing
15 organization of Benteler Stahl/Rohr Germany.

16 I have 30 years' experience in the pipe and
17 tube industry, 22 of those years in the U.S. market.
18 I spent 20 years with the Management Group in Germany,
19 Brazil, and the U.S. in various positions before I
20 joined Benteler 10 years ago, in 1997.

21 Although I have detailed knowledge of the
22 V&M facilities in Germany and Brazil, all of which
23 were formerly owned by Management, I am speaking here
24 today only on behalf of Benteler Steel and Tube and
25 Benteler Stahl/Rohr.

1 Benteler is not your typical pipe and tube
2 producer. First and foremost, Benteler is a solutions
3 provider and a niche player, which is evidenced by the
4 fact that the average sales price of all of our
5 tubular sold in the U.S. exceeds \$1,600 a ton, a much
6 higher figure than what I believe is the average
7 selling price for U.S. steel or for copper.

8 Most of the nonsubject products we sell in
9 this country are not even manufactured here. For
10 example, long-length boiler tubes up to 72 feet
11 length, small OD, hot-finished, seamless tubes under a
12 two-inch outside diameter; seamless hydraulic line
13 tubing, aircraft tubing, and so forth. In fact, some
14 of the U.S. manufacturers of seamless cold-drawn
15 tubing are our best customers because we supply
16 products to them that they don't make or cannot make.

17 Benteler is a privately owned company with a
18 history of 130 years, always profitable, and we do not
19 dump.

20 After reading the prehearing brief of the
21 domestic producers and listening to their
22 presentations here today, one could have the
23 impression that this sunset review covers pipe imports
24 from China and not from Argentina, Germany, and
25 Brazil. It appears that the real problem in this

1 market is the increase in imports from China. But
2 rather than doing anything about that, U.S. steel and
3 copper are trying to keep the imports from all other
4 countries out.

5 If Chinese imports are the true problem, I
6 challenge my colleagues from the domestic producers to
7 do something about it by bringing cases against China.

8 Just like Siderca, Benteler has also not
9 imported any SLP pipe into the U.S. during the last 12
10 years. As you can see from our foreign producers'
11 questionnaire, Benteler has been running at full
12 capacity for years and has commitments to supply
13 existing customers in other markets. If the order on
14 German imports is removed, Benteler has no plans to
15 ship significant quantities of subject products to the
16 U.S.

17 What we are looking to sell are niche
18 products in sizes that are not produced here and hot-
19 finished execution. Such imports could not cause any
20 identifiable harm to the domestic industry.

21 As already pointed out in Benteler's
22 response to the foreign producers' questionnaire, the
23 prices at which Benteler sells in key third-country
24 markets are significantly higher than the prevailing
25 price levels for standard, line, and pressure pipe in

1 the U.S. Under these circumstances, Benteler has no
2 incentive to shift significant sales to the U.S.
3 market.

4 The assertion of the domestic producers that
5 the "industry's production base is rapidly eroding" is
6 simply false. The U.S. domestic industry is very
7 healthy, having achieved record profits in 2006, after
8 record profits in 2005, and after healthy profits in
9 2004. Management of the domestic mills is doing the
10 right thing by investing these profits in expanding
11 its tube-making capacities and heat-treatment
12 facilities.

13 A new \$98 million investment by Koppel to
14 expand its production capacity and a recent \$85
15 million investment by U.S. Steel in a new quench and
16 temper facility do not paint a picture of an eroding
17 production base.

18 In spite of a reduction in exploration
19 budgets of some oil and gas companies for 2007,
20 overall demand for SLP pipe continues to be strong and
21 is forecasted by the Preston Pipe and Tube Report even
22 to increase over the 2006 level. Preston, who is
23 frequently quoted at these proceedings here,
24 forecasted seamless line pipe apparent consumption to
25 rise from 513,000 tons in '06 to 603,000 tons in '07.

1 That's an increase of 17.5 percent.

2 For the pressure tube market, Preston is
3 forecasting "a banner year." If the market conditions
4 for oil and gas, as well as the outlook for the
5 overall U.S. economy, are really as bad as they were
6 portrayed here this morning and also in the prehearing
7 brief from the domestic producers, one has to wonder
8 why U.S. Steel decided to restart two blast furnaces
9 which were idled during the last quarter of '06.
10 According to an article in the American Metal Market,
11 on February 2nd, this action is based on the
12 anticipation that there will be more demand for steel
13 by the end of this current quarter.

14 The fact that German producers of SLP pipe
15 have established channels of distribution in the U.S.
16 market does not support the assumption that dumping
17 would occur if the German order was lifted. To the
18 contrary, if you have a well-established sales and
19 marketing organization, you can find the most
20 profitable niches in the market and explore them.

21 Benteler does not face any difficulties in
22 non-U.S. markets. There are no barriers for our
23 products, and, in fact, we have placed customers
24 outside of the U.S. market on allocations.

25 The statement that Chinese producers of

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1 small-diameter SLP pipe are "squeezing out German
2 producers from the export markets" is simply false.
3 In certain markets, such as Singapore and Korea,
4 Chinese producers have become a factor in the last few
5 years, but we are not competing with Chinese producers
6 because we sell higher-quality products. In fact, our
7 participation in those markets in the Far East, except
8 China, has been stable over recent years.

9 A couple of words regarding German
10 production capacity. As was reported last month, V&M
11 has now agreed to sell its Seitine (ph) facility to
12 Velskitter (ph) in connection with Velskitter's (ph)
13 takeover of Valoret's (ph) cold-drawing facilities in
14 France. The sole purpose of this purchase by
15 Velskitter (ph) is to secure the supply of tube
16 hollows for its cold-drawing facilities.

17 With its Seitine (ph) mill exclusively
18 producing tube hollows in the future, approximately
19 200,000 tons of potential SLP pipe capacity will
20 vanish from the market and would not be available for
21 export to the United States. Therefore, Germany will
22 have a sharply reduced capacity to export covered
23 products in the future.

24 In addition to the prepared notes, I would
25 like to make some comments regarding testimony you

1 heard this morning about transnational affiliation.
2 Regarding a question from Commissioner Hillman, Mr.
3 Leland testified that France sells at the same price
4 levels as the domestic mills. The only producer in
5 France is V&M. Why would V&M sell their products from
6 Germany at different price levels here than they sell
7 their products in France?

8 Also, V&M owns North Star, which is called
9 V&M Star now, in the U.S., who is a producer of large-
10 diameter SLP pipe, and V&M would certainly not want to
11 hurt their own mill by underselling domestic products
12 here, bringing in small OD SLP pipe below market
13 price. It just doesn't make sense.

14 In summary, I feel strongly that 12 years of
15 protection for the domestic industry is enough.
16 During that timeframe, the industry has successfully
17 restructured, the producers have invested in new
18 equipment, and they are extremely profitable. There
19 is no need for further protection.

20 Thank you very much for your attention, and
21 I'll be happy to answer any questions you might have.

22 CHAIRMAN PEARSON: Does that conclude the
23 presentations of the panel?

24 MR. SPAK: Yes, it does, Mr. Chairman.

25 CHAIRMAN PEARSON: I get to start the

1 questioning. Let me begin by welcoming you here. We
2 appreciate the efforts that you have made to prepare
3 and to travel here. There are lots of things to do in
4 running a business that perhaps come to mind more
5 quickly than spending a day at a hearing at the
6 International Trade Commission. This goes for the
7 morning panel, too. So I appreciate the effort that
8 you, as businessmen, have taken to prepare and to come
9 here.

10 Let me go to an issue that's raised in the
11 Siderca brief, and this is the extent to which welded
12 seamless pipes might be able to substitute for
13 seamless pipes. Could you expand on that? Obviously,
14 we discussed it this morning, but what is the
15 relationship, and is it something that's a real
16 relationship that would have an effect on the
17 marketplace, or is it only theoretical?

18 MR. BALKENENDE: To be honest, it's a very
19 small component. What was mentioned this morning,
20 indeed, the four-inch, full-body normalized, is one
21 application that's clearly identified as one, but it
22 is, in the overall scope, I would say, a minor
23 component. We have seen the substitution the other
24 way. You can easily substitute seamless for welded
25 because of, let's say, production availability.

1 That's the way we looked at it as well, but it's a
2 minor component.

3 CHAIRMAN PEARSON: Okay. Mr. Spak?

4 MR. SPAK: Yes. If I could add, Mr.
5 Chairman, I think, if you look at our brief, what we
6 were citing was also to the record, information from
7 the Commission staff, and just reflecting some
8 comments that were in the proprietary record that the
9 staff had collected. Thank you.

10 CHAIRMAN PEARSON: Okay. Also this morning,
11 we had a discussion about the price relationships
12 between seamless pipe and welded pipe, and my
13 understanding of that discussion is that the domestic
14 industry sees a relationship between the price of
15 welded pipe and hot rolled but not so much a
16 relationship between welded pipe and seamless pipe.
17 How do you see that situation?

18 MR. SPAK: Yes. I would agree with that.
19 The applications are typically different. Where, as
20 we stated before, we see the market for the small-
21 diameter SLP in the refining and the processing plants
22 applications, whereas the welded is more in
23 transmission lines. It is true that the raw material
24 for that is the hot-rolled steel. So I would say,
25 yes, the link is strong in that respect.

1 CHAIRMAN PEARSON: Do you have any
2 observations, Mr. Herminghaus?

3 MR. HERMINGHAUS: I think the substitution
4 of seamless pipe by welded pipe has already taken
5 place over the last 20 or 30 years. My experience is
6 the price relationship between seamless and welded is
7 typically a 15 percent difference. Seamless is 15
8 percent higher than the welded. If that relationship
9 gets out of whack -- let's say, seamless is 50 percent
10 more expensive than welded -- then you might have some
11 people looking at substitution and seeing whether they
12 could use the welded, and the other way around. If
13 welded, all of a sudden, would be at the same price as
14 seamless, a lot of people would probably use more
15 seamless than welded.

16 CHAIRMAN PEARSON: How about the
17 relationship between small-diameter SLP and larger-
18 diameter SLP? The reason for asking is that Tenaris
19 does have the relationship with the large-diameter
20 pipe plant in Youngstown, Ohio, doesn't it?

21 MR. HERMINGHAUS: Youngstown is V&M.

22 CHAIRMAN PEARSON: I'm sorry. It's already
23 been a long day.

24 Is it possible for the price of the small-
25 diameter SLP to fall and then also bring down the

1 price of the larger-diameter pipe, or does the larger-
2 diameter pipe simply not compete with the smaller ones
3 because the production process is sufficiently
4 different?

5 MR. BALKENENDE: Ultimately, we can say that
6 if they are produced in a similar environment, that
7 the costing of operating should be reasonably similar
8 unless they are produced in different parts of the
9 world. But if it's produced in a similar facility --
10 small diameters are more costly to produce than larger
11 ODs because of the dimension, but, on itself, if it's
12 produced in the same pipe of a different length, there
13 should be a great issue of similarity.

14 CHAIRMAN PEARSON: Okay. One of the points
15 that I believe the domestic industry was making was
16 that, under the transnational relationship that exists
17 within Tenaris or V&M, that there is likely to be a
18 more sophisticated knowledge of the U.S. market than
19 disseminate to all of the plants that are part of that
20 system.

21 In the case of Siderca, isn't it entirely
22 possible, especially now that you have the
23 relationship with Maverick Pipe and Tube, that since
24 Maverick does not produce seamless pipe, and it has
25 relationships under the umbrella with seamless pipe

1 producers in other countries, that Maverick would be
2 in a very strong position to start to offer seamless
3 pipe to its customers that would be manufactured by
4 sister companies?

5 MR. BALKENENDE: That is a good observation,
6 but may I explain the difference between why we
7 acquired Maverick and how we operate the seamless line
8 pipe in other parts of the world?

9 We had a great interest in acquiring
10 Maverick because of the future of the energy sector in
11 the United States. We believe that the United States
12 will explore oil and gas to serve its own needs. We
13 may not believe that all downstream processing plants,
14 petrochemical plants, will be built in the United
15 States. We don't believe they will be built in mature
16 markets like the U.S., nor Europe.

17 That is why our approach is a different one.
18 You heard this morning statements like it's incredible
19 why we think another market. We are not coming to the
20 market to just sell product if we have no outlets. As
21 stated before, we aim at target markets. When we say
22 we go after project markets and construction, gas
23 processing, they don't happen to be here, whereas oil
24 drilling, we know the forecast for rigs -- we heard it
25 this morning -- actually is going up. We also know

1 that every year the amount of tubular goods needed to
2 get the same amount of gas will increase. That's our
3 view. The links between those two are not so strong
4 maybe.

5 So to say Maverick, and now we're going to
6 sell seamless, from a sales channel point of view,
7 there may be the same customers there, but our market
8 approach is entirely different for the two.

9 CHAIRMAN PEARSON: Okay. Any comments
10 regarding V&M?

11 MR. HERMINGHAUS: Yes. I don't understand
12 the argument that the domestic producers are making,
13 that because there are established channels of
14 distribution, and there is market intelligence, that
15 that necessarily leads to a reoccurrence of dumping.

16 As Mr. Leland testified, the French product
17 is marketed here at high prices, very responsibly, and
18 those same people would market the product from
19 Germany. Actually, as a domestic producer, I would
20 wish to have intelligent competitors. There is
21 nothing worse than a dumb competitor who doesn't know
22 where the market is.

23 So I don't really understand the argument
24 that that would lead to a reoccurrence of dumping.

25 CHAIRMAN PEARSON: Okay. Is there a way to

1 characterize the degree of consolidation among
2 seamless pipe producers globally now compared to five
3 years ago? Are the producers becoming substantially
4 more interrelated, or are there still many independent
5 producers?

6 MR. BALKENENDE: I think the trend of
7 consolidation is there. We see more companies coming
8 together. It's, I would say, a clear indication that
9 consolidation, not only between V&M and Tenaris but
10 other parts of the world, we see that trend
11 continuing.

12 MR. HERMINGHAUS: Yes. I fully agree. I
13 just would like to remind the Commission that when the
14 original case was investigated in '95, neither V&M nor
15 Tenaris existed in their forms. At the time, in
16 Europe, there were three independent seamless
17 producers, Valoret (ph), Monismon (ph), and Dominy
18 (ph).

19 Now we have V&M with production facilities
20 in Germany, France, Brazil, and the United States, and
21 we heard earlier from Mr. Balkenende the facilities of
22 Tenaris. It's a totally different picture, and also,
23 in my view, consolidation in the industry will
24 continue.

25 CHAIRMAN PEARSON: Okay. Thank you very

1 much. My time is expiring. Vice Chairman Aranoff?

2 VICE CHAIRMAN ARANOFF: Thank you, Mr.
3 Chairman. I join the chairman in welcoming the
4 afternoon panel. Thank you for traveling to be with
5 us today.

6 A question for both of the industry
7 witnesses here. In your briefs, you both made the
8 argument that one of the reasons that you would not
9 have any incentive to sell a lot of product in the
10 United States in the event of revocation is that you
11 are committed to other customers, other export
12 customers, outside your home markets through long-term
13 contracts or relationships.

14 That's an argument that we frequently hear
15 in these reviews, and, in many cases, subject
16 producers are able to provide us with copies of
17 contracts or names of customers, with the approximate
18 volumes that they have sold those customers over
19 extended periods of time, so that the Commission can
20 use that information to gauge the extent to which
21 these are really committed sales.

22 Is there similar information that you are
23 able to put on the record for us?

24 MR. BALKENENDE: Yes. We can provide you
25 with some explanation on what capacity we have

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1 available and what commitments, through agreements or
2 relationships, that we have. We will provide that.

3 VICE CHAIRMAN ARANOFF: Okay. Thank you.

4 MR. HERMINGHAUS: Yes. Same here. We don't
5 have long-term contracts, but we have long-term
6 relationships, and we are willing to share those
7 customer names with you.

8 VICE CHAIRMAN ARANOFF: Okay. I appreciate
9 that and just encourage you that the more detail that
10 you can provide, the easier it is for us to really get
11 a handle on the extent to which we view your current
12 export patterns as committed, so I appreciate that.

13 Mr. Herlach and Mr. Herminghaus -- I've
14 probably pronounced that wrong -- when we look at the
15 issue in a sunset review of whether or not a
16 particular producer is export oriented or an industry
17 in a particular country, the Commission has sometimes
18 treated exports that are exported within the European
19 Union or within another regional market, discernable
20 regional market, as somewhat different than the
21 exports that go outside of a producer's region.

22 In this case, while the percentage of German
23 production that's sold in Germany or within the
24 European Union is relatively high -- I don't want to
25 say anything that's confidential -- it's declined over

1 the period of review. There are more sales outside
2 the region. How should the Commission weigh that fact
3 as we look forward into the reasonably foreseeable
4 future?

5 MR. HERLACH: Well, maybe you ought to ask
6 Mr. Herminghaus to respond on the facts, but I guess
7 the point here is the one you just raised a minute
8 ago, that, for Benteler certainly, and Mr. Herminghaus
9 can give you the details, the point is the commitments
10 and the relationships, and I would suggest that you
11 need to focus on that because that's really what
12 drives how much capacity they have available to ship
13 to this market, which, as he has testified, they do
14 not.

15 Now, as far as the trends, I think it might
16 be worth a moment for Mr. Herminghaus to describe what
17 has, in fact, been happening to the trend of
18 Benteler's exports.

19 MR. HERMINGHAUS: I'm not aware of a
20 declining trend. For Benteler, our main market is the
21 European Union for all products. It's not true for
22 the subject products here, but for all of our
23 products, our main market is the European Union, and
24 I'm not aware of any decline in trends there. It has
25 been our main market and continues to be our main

1 market.

2 VICE CHAIRMAN ARANOFF: Okay.

3 MR. HERMINGHAUS: Unfortunately, in this
4 respect, I cannot speak for V&M.

5 VICE CHAIRMAN ARANOFF: Fair enough. Fair
6 enough. I may not have the right German producer here
7 to ask the question to.

8 Okay. A question for Siderca: The domestic
9 producers point out that, in contrast to Siderca's
10 claimed lack of interest in the U.S. market for the
11 subject product, that Siderca has been a significant
12 participant in the U.S. market for other seamless pipe
13 products that are not under order.

14 You can disagree with that characterization,
15 but assuming that you agree that there has been some
16 involvement in the market here, are there pricing
17 differences or other market circumstances that would
18 explain why Siderca has an interest in selling other
19 seamless pipe products in the U.S. market but not the
20 subject merchandise?

21 MR. BALKENENDE: It was a decision of ours
22 to bring a limited quantity of these products into the
23 market to stay in touch with the U.S. market. This
24 was before the Maverick acquisition, and we have
25 channeled it to a very limited and confidential

1 party's customer base in the United States. It was
2 only to stay in touch with the market, and we sold it
3 at the market levels, not under the market levels.

4 VICE CHAIRMAN ARANOFF: Okay. I hear
5 confidential information creeping up on us, so if
6 there is anything that you can add in your post-
7 hearing brief to really be specific about who those
8 customers were, are, whether that's a relationship
9 that you see continuing --

10 MR. HERMINGHAUS: There will be a very brief
11 list.

12 VICE CHAIRMAN ARANOFF: I appreciate that.
13 Let me ask you, you operate in the United States, so
14 you may or may not know the answer to this question,
15 but is Siderca competing in its home market with
16 Chinese product?

17 MR. BALKENENDE: I understand, and, again, I
18 do not know whether it's confidential, but we have the
19 majority of the domestic market in Argentina. I'm not
20 aware of any major imports of China in Argentina.

21 VICE CHAIRMAN ARANOFF: Okay. Mr.
22 Herminghaus, you indicated in your testimony that if
23 the order were revoked, there would be some intent by
24 your country to ship certain high-end, niche products
25 into the U.S. market, and I would ask you, either

1 here, or if it's confidential, in your brief, can you
2 identify what those specific products are that you
3 would be thinking about and whether those products are
4 made here in the United States?

5 MR. HERMINGHAUS: Yes. I can identify
6 those. To my knowledge, there is no producer of under
7 two-inch OD, seamless, hot-finished tubes in the
8 United States. So that would be an area we would
9 focus on, small ODs, and also alloy line pipe.

10 I know that there are capabilities at U.S.
11 Steel, but I hear from the market that they are not
12 supplying the market with grades like P-22, P-5, P-11,
13 the alloy pressure pipe grades. Those were the areas,
14 and the volumes are small, and those would be the
15 products we would focus on.

16 VICE CHAIRMAN ARANOFF: Okay. If you could
17 let us know, confidentially, in your brief, what you
18 see as the potential size of the market for those
19 products in the U.S.

20 MR. HERMINGHAUS: I think we put that in the
21 producers' questionnaire already, but we can repeat
22 it, no problem.

23 VICE CHAIRMAN ARANOFF: I guess what I'm
24 trying to establish is whether those products are the
25 ones that resulted in the number that's in your

1 questionnaire as your projected volume, whether those
2 two tie up. Okay. Thank you.

3 And I'll ask you to comment on the same data
4 question that I have raised with the domestic industry
5 regarding Table 4-21 in the staff report, which are
6 Preston Pipe pricing data for the U.S. market, showing
7 relative prices of standard, line, and OCTG in the
8 U.S. market, which appear to show standard pipe prices
9 exceeding line pipe and OCTG prices, which is sort of
10 backwards of the conventional wisdom.

11 Do you care to comment on whether you think
12 those data are reliable, or the conventional wisdom
13 has changed in the U.S. market, or what you think
14 might be going on there?

15 MR. BALKENENDE: I think, from our side, I
16 would like to do some further research. The data
17 should be correct. Typically, there may be an
18 explanation on mix or some case, but what we would
19 like to do is review it, and we'll give you our honest
20 opinion on that.

21 VICE CHAIRMAN ARANOFF: Okay. That's fine.
22 What I'm interested in is we've always understood it
23 to be the case that OCTG is the highest-priced product
24 in line pipe than standard pipe. It creates a certain
25 incentive structure in terms of how producers allocate

1 their capacity, and if that incentive structure has
2 changed, obviously, that would be a big change in
3 conditions of competition. So I'll look forward to
4 hearing --

5 MR. BALKENENDE: We will comment on that.

6 VICE CHAIRMAN ARANOFF: Thank you very much.
7 Thank you, Mr. Chairman.

8 CHAIRMAN PEARSON: Commissioner Hillman?

9 COMMISSIONER HILLMAN: Thank you, and I,
10 too, would join my colleagues in welcoming you and
11 thanking you for taking the time and traveling all
12 this distance to be with us. It is extremely helpful
13 to have industry witnesses before us.

14 Let me start with you, Mr. Balkenende, to
15 try to understand this issue of you supply the
16 project. As I heard your testimony, you're saying
17 your preference is to supply a given project. I
18 presume, when you say that, that means supplying all
19 of the variety of pipe and tube products that it would
20 take, probably some line pipe, maybe some is the pipe,
21 some OCTG, possibly some drill pipe, but, in theory,
22 you're trying to supply a given project. Is that how
23 you're describing it?

24 MR. BALKENENDE: It will be on a project,
25 and I mean a construction project for refineries,

1 petrochemical plants.

2 COMMISSIONER HILLMAN: Okay.

3 MR. BALKENENDE: OCTG is not part of that.

4 COMMISSIONER HILLMAN: Okay.

5 MR. BALKENENDE: Typically, we talk about
6 the grades, material grades. In one of the briefs,
7 you may have seen that part. The grades that we look
8 at those things, the A-106 or A-333 - A-335 grades.

9 COMMISSIONER HILLMAN: Okay.

10 MR. BALKENENDE: The low-end market is what
11 they consider the A-53.

12 COMMISSIONER HILLMAN: All right.

13 MR. BALKENENDE: And the pipeline business
14 is typically to API.

15 COMMISSIONER HILLMAN: All right.

16 MR. BALKENENDE: To be specific, we aim at
17 that A-106, that type of market, so that there is not
18 the OCTG. That means it's typically not welded. It's
19 typically all seamless line pipe, from small size up
20 to 26 inches.

21 COMMISSIONER HILLMAN: Okay. So all of the
22 pipe that you would sell to this specific project
23 would be seamless --

24 MR. BALKENENDE: Seamless.

25 COMMISSIONER HILLMAN: -- and it would be

1 either small or large diameter, but it would basically
2 be the subject product, if the diameter is small
3 enough, and then nonsubject product if the diameter
4 was larger, but, otherwise, all of the kind of pipe
5 that we're talking about.

6 MR. BALKENENDE: That is correct.

7 COMMISSIONER HILLMAN: Okay. All right. I
8 understand it.

9 Help me understand, because certainly the
10 data would suggest, in our market, that all imports
11 are sold through distribution and that the domestic
12 industry, again, sells largely through distributors,
13 and we obviously have heard from distributors. How
14 does your idea of supplying the project a connect to
15 the distribution network? It sounds like you're going
16 direct to the end user when you say you supply the
17 project.

18 MR. BALKENENDE: I appreciate the question,
19 and I would like to comment on it as follows. These
20 construction projects are typically executed by
21 engineering companies, and they procure the materials,
22 and they are responsible for the construction
23 schedule. We work with these companies all over the
24 world.

25 When we would come to the United States, our

1 model would be that we would be in direct contact with
2 engineering companies but that services could be
3 provided by our distributors.

4 That is different from the model where we
5 say a distributor just comes and asks, and we do not
6 know, like in maintenance, where it goes to because
7 these projects are large, are huge. As I stated
8 before, we like to match the construction schedules
9 with our planned load schedule.

10 We see the value in distribution for
11 providing many services in the process, but securing
12 the mill reservations is our responsibility, and
13 that's why we see a direct communication with these
14 engineering companies.

15 COMMISSIONER HILLMAN: Okay. So if you're,
16 in essence, doing the sales and the marketing, and
17 you're contracting, in essence, with the engineering
18 firm, what services would a distributor then provide
19 in that kind of an arrangement?

20 MR. BALKENENDE: Logistics, warehousing.

21 COMMISSIONER HILLMAN: Okay. All right.
22 Okay. Part of the reason I'm asking this is to try to
23 understand the argument about supplying the U.S.
24 market through Maverick because, as I now hear your
25 description of how this project works, Maverick is

1 producing only welded product, so, presumably, if you
2 were to do this kind of project within the U.S.
3 market, it would not be supplied through Maverick.
4 You would have to be bringing it in from somewhere.

5 MR. BALKENENDE: If I may explain the
6 organization structure of Tenaris because that is
7 critical to this component, none of the manufacturing
8 plants, our production facilities, have sales or
9 marketing facilities.

10 We operate under business units, and we have
11 business units for the United States, and, within
12 Tenaris, when we penetrate the United States, we go
13 after certain markets, and then the company decides
14 from which manufacturing plant the material will come.
15 It is not that we promote Argentina or Italy or Japan.

16 We say, if we want to penetrate a market in
17 the United States, then the company decides ultimately
18 which manufacturing plant is the most suitable, but
19 the commercial responsibility of marketing that in the
20 United States is with one entity. I hope that
21 clarifies.

22 COMMISSIONER HILLMAN: Okay. All right.
23 But then how does that relate to the issue of -- I'm
24 sorry -- go ahead.

25 MR. BALKENENDE: Maybe because Maverick was

1 a production facility, but we have, in the meantime,
2 already integrated the sales and marketing
3 responsibilities of both Tenaris, all of Tenaris's
4 mills together with Maverick, so there is not a
5 separate entity from a sales and marketing aspect.

6 COMMISSIONER HILLMAN: So the Tenaris Group
7 is marketing Maverick product as Tenaris product in
8 the U.S.

9 MR. BALKENENDE: Correct.

10 COMMISSIONER HILLMAN: Tell me how this
11 relates to the approved manufacturers' list. In other
12 words, if you're marketing directly, again, I'm
13 assuming, then, everybody in the Tenaris group, all of
14 your mills are on every AML list that you would need
15 to be on, or how does that play into these decisions
16 about where you will source? You get a contract for a
17 particular project. You then have to decide which
18 mill is going to source it. How do you relate that to
19 this AML and the issue of the purchaser needing to
20 make sure you're qualified under various scenarios?

21 MR. BALKENENDE: We have, of course,
22 acquired many companies over time. Sometimes it
23 happens that a company we acquire is not on the list
24 yet. Due to our global quality standard system, we,
25 indeed, aim, as quick as possible, to get all Tenaris

1 mills on the approved manufacturer lists. It does not
2 happen always immediately, but we dedicate efforts to
3 being recognized as one global company with one
4 quality system.

5 COMMISSIONER HILLMAN: If you were to get a
6 project, as you describe it here, normally, where
7 would you supply that product from, seamless product
8 from?

9 MR. BALKENENDE: Currently, we could bring
10 that in from Italy, from Argentina, Canada.

11 COMMISSIONER HILLMAN: Okay.

12 MR. BALKENENDE: That would be for the
13 United States DM.

14 COMMISSIONER HILLMAN: Okay. All right.
15 Mr. Herminghaus, if I can go to you on this issue of
16 the relationship between the prices of seamless versus
17 welded. I heard your testimony. It strikes me as
18 very consistent with what we've always thought, which
19 is that seamless carries a substantial enough price
20 premium that there is, from a price perspective, not
21 very much substitutability between welded and seamless
22 product, and, more importantly, from a performance
23 standpoint, many users are not going to go to a welded
24 product if they need seamless.

25 But we've seen this now phenomenon, at least

1 in the U.S. market, of Chinese product coming in well
2 below this 15 percent differential that you mentioned,
3 the Chinese product coming in here at \$600 a ton less
4 on a \$1,200-a-ton item, so we're talking 50 percent
5 less than what the prevailing U.S. price is.

6 In your view, would you say that would
7 permit people to purchase Chinese seamless for an
8 application that they perhaps in the past have used
9 welded product? Would one do that?

10 MR. HERMINGHAUS: Yes. We have seen that.

11 COMMISSIONER HILLMAN: And you've seen it
12 actually happen.

13 MR. HERMINGHAUS: We've seen it in the OCTG
14 market, and I would call that "reverse substitution."

15 COMMISSIONER HILLMAN: Okay. A very recent
16 phenomenon or something that has always be out there?

17 MR. HERMINGHAUS: No, the last couple of
18 years.

19 COMMISSIONER HILLMAN: And how significant?
20 How much reverse substitution?

21 MR. HERMINGHAUS: I don't know. That's hard
22 to say.

23 COMMISSIONER HILLMAN: Lots of tonnage or
24 just here and there?

25 MR. HERMINGHAUS: No. I would say

1 substantial tonnage.

2 COMMISSIONER HILLMAN: Okay. That's
3 interesting. Then if I can go back to the issue of
4 the Latin American market, we heard a lot about the
5 issue of Venezuela, but, more broadly, I'm wondering
6 if you can help us understand where you see demand in
7 the Latin American market and how demand and supply
8 are matching up in terms of seamless product.

9 MR. BALKENENDE: Again, I keep focusing, for
10 this product, on the seamless line pipe. South
11 America is a growing market. We track information,
12 and I'm happy to share that with you confidentially in
13 the post-hearing brief. We know that there are many
14 investment decisions on the shelf to be executed in
15 the years to come, and we see the South American
16 market as a strong growth market for all downstream
17 processing plants investments. So we only see growth
18 in demand for South America, and we will provide you
19 with details on that.

20 COMMISSIONER HILLMAN: All right. I
21 appreciate that very much. Thank you for your
22 answers. Thank you, Mr. Chairman.

23 CHAIRMAN PEARSON: Commissioner Okun?

24 COMMISSIONER OKUN: Thank you, and I join my
25 colleagues in welcoming all of you here this

1 afternoon. I appreciate your being here and answering
2 our questions and providing information. It's very
3 helpful to have a complete record before us as we go
4 through this analysis.

5 Let me ask you, first, perhaps, Mr.
6 Balkenende, which is you had referenced in your
7 opening testimony a forecast about the U.S. project
8 market, and I would ask that you submit that in the
9 post-hearing brief and any of the analysis that it
10 needs for us to understand exactly what that means.

11 MR. BALKENENDE: I will be very happy to
12 share that in all detail.

13 COMMISSIONER OKUN: Okay. And then, as it
14 relates to the conversation you were just having with
15 Commissioner Hillman about how Tenaris approaches the
16 different markets and the different projects which it
17 would attempt to supply, I was trying to understand
18 what that meant in terms of how -- I think I lost a
19 little bit of what the acquisition of Maverick means.
20 Does Maverick become the business unit that is out
21 trying to get these projects in the United States?

22 MR. BALKENENDE: Maybe I have confused you,
23 and I apologize for that. The primary business of
24 Maverick was the oil country tubular goods, the OCTG,
25 and they also have a part in the pipeline business.

1 There is no business whatsoever that Maverick had in
2 the seamless line pipe business, completely unrelated
3 in the past.

4 COMMISSIONER OKUN: Right.

5 MR. BALKENENDE: How Tenaris now penetrates
6 the U.S. market is we have all of the products
7 available, and then we say there is the welded
8 product, there is OCTG, there is line pipe, there are
9 the downstream projects. We now have one business
10 unit that essentially sees what is the best part of
11 the United States market that we would like to
12 penetrate.

13 COMMISSIONER OKUN: Okay. Tell me on this,
14 because I think when I read your bread, I had thought
15 you were making the argument that, with the
16 acquisition of Maverick, there would be less need for
17 Siderca to ship seamless into the United States
18 because of the presence of Maverick, which isn't what
19 I hear you saying now. So I'm trying to understand,
20 are you saying that, if Maverick gets this project,
21 Maverick is not, and will not, be a seamless producer,
22 that the product that you would use to supply the
23 seamless component of that would come from where, from
24 Argentina? from Canada? from where?

25 MR. BALKENENDE: To be clear, the link with

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1 Maverick and seamless is more in the large ODs, which
2 is not the product that's currently being reviewed
3 here.

4 At this moment, if we elect, because we have
5 not supplied any material from Argentina in the last
6 12 years, if we needed some material, as I stated in
7 my earlier comments, we could bring in some material
8 from Canada, where we have no restriction, or from
9 Mexico, which --

10 COMMISSIONER OKUN: In the subject product.

11 MR. BALKENENDE: In the subject product,
12 yes.

13 COMMISSIONER OKUN: Okay. So if hear you
14 correctly, it's Tenaris. The business units will try
15 to get the particular project, and then Tenaris --
16 there was a decision made of whether it would be
17 sourced from any of the operations that would produce
18 the subject product.

19 MR. BALKENENDE: I have to say, in the past,
20 we have not pursued projects in the United States
21 because most of them are upgrade projects, but no new
22 plants being built. That's why we have not been
23 active in that market in the past, and we do not see a
24 real reason to be very active in that in the future.

25 COMMISSIONER OKUN: And I think this was in

1 your brief, but in terms of when you look at the
2 greenfield facilities, which it sounds like is more
3 the focus, where do you see that growth coming from in
4 the reasonably foreseeable future?

5 MR. BALKENENDE: That's clear. All those
6 parts, Middle East, Asia, South America are the
7 obvious growth markets, and Africa.

8 COMMISSIONER OKUN: Okay. Did you want to
9 say something, Mr. Spak?

10 MR. SPAK: Yes. Just to say, Commissioner
11 Okun, that --

12 COMMISSIONER OKUN: Go ahead and take the
13 mic, so I can hear you.

14 MR. SPAK: Yes. Just to clarify, that will
15 be the information that we'll provide in the post-
16 hearing brief. Obviously, it's very confidential.

17 COMMISSIONER OKUN: Right, okay. I will
18 look forward to seeing that, then. Okay, then, the
19 other thing, and, again, it touches on this question
20 about transnational relationships and what they do or
21 don't mean. And the Commission, in more recent
22 history, including in May, has looked to the economic
23 incentive that a company, a global multinational
24 company has to use its different markets or different
25 production facilities and whether they're regional or

1 not.

2 Help me understanding, in looking at the
3 information on the record, there was an Exhibit 2 to
4 U.S. Steel's pre-hearing brief had this world trade
5 atlas data. And, of course, as you mentioned, there
6 are seamless pipe mills, Tenaris seamless pipe mills
7 in Canada, Italy, and Mexico. Yet, based on this data
8 that was in Exhibit 2, it appears that Argentina still
9 exports seamless pipe to those very same markets,
10 where you have mills. How are those decisions made
11 and how should I take that into account, in trying to
12 determine how much Argentina product would come to the
13 United States?

14 MR. BALKENENDE: In principle, we can
15 provide you all data that you would like to have
16 related to where the materials are going. But, for a
17 principle point of view, when we have a manufacturing
18 plant, we typically have -- we fill the obligations to
19 first serve the needs in the regional market. That's
20 from a logistic point of view and very often from a --
21 that makes more sense.

22 Then, beyond that, we review regional or
23 global markets. Middle East, for example, has no
24 seamless manufacturing facility. So, someone has to
25 export. Exports to the Middle East should not be

1 viewed as a bad thing when there's no one there. The
2 fact that we have global alliances in thee areas serve
3 some export into those regions.

4 COMMISSIONER OKUN: Okay.

5 MR. SPAK: If I could add, Commissioner
6 Okun?

7 COMMISSIONER OKUN: Yes.

8 MR. SPAK: With respect to that Annex 2, we
9 would also like to provide you with some better data
10 in our post-hearing brief than that data, because
11 we've noticed that it gives the impression that the
12 U.S. market is a target market for Siderca seamless
13 exports. And if you look at what they've included in
14 that table, it doesn't include large categories of
15 products that don't come to the United States. So, if
16 you had that other data, you would see that the U.S.
17 market is relatively small in what Siderca does
18 worldwide and what Tenaris does worldwide, and we'll
19 provide that.

20 COMMISSIONER OKUN: Okay. I will look at
21 that data, as well, and any explanation you have for
22 that.

23 Then, another point made in your brief was
24 that Siderca had -- it was reducing its focus on SLP
25 in favor of OCTG. And I wondered if you could help me

1 understand, if you're talking about forward looking or
2 did you mean to say on the current record. Because,
3 when I look at the data, without getting into anything
4 confidential, to me, it didn't support that argument.
5 So, are we talking about the investments and -- maybe
6 help me. And if anything must be discussed
7 confidential, just do it then, as well.

8 MR. SPAK: Yes.

9 COMMISSIONER OKUN: But, I just wanted to
10 understand that argument.

11 MR. BALKENENDE: We will provide information
12 in the post-hearing brief. But, the old investments
13 might be hopefully clear that we have not increased
14 the total rolling capacity. All the investment are
15 geared to its more finishing lines and that leads
16 towards more availability. And those investments are
17 still going on. They started some time ago and I
18 think the numbers will basically prove that these
19 investments will result in lasting availability for
20 the SLP.

21 COMMISSIONER OKUN: Okay. And is that, then
22 -- I guess when you do that, if you could also help me
23 understand that investment vis-a-vis where you see the
24 different markets, including the United States market,
25 in terms of more OCTG or more -- what kind of products

1 you will be selling, based on demand. Okay.

2 Then, there was another statement you made
3 that I wanted to follow up on and that was the tubular
4 needed -- I believe it was in the United States
5 market, but the amount of tubular needed today is more
6 when your facilities -- some facilities are older,
7 particularly with relation to gas lines. Did you say
8 that? And help me understand if that is correct or
9 not, to get out the same amount of gas, I think is
10 what you said. You need more --

11 MR. BALKENENDE: Yes. My comment relates to
12 the exploration of oil and gas, because the easy
13 drills have been found decades ago. Wherever we drill
14 in the world now, it gets year-by-year more
15 complicated. So, we believe there is more new
16 metallurgical things will be needed, there is more R&D
17 needed to serve the needs of the more complicated
18 wells.

19 COMMISSIONER OKUN: Okay.

20 MR. BALKENENDE: That's what --

21 COMMISSIONER OKUN: That's what I thought
22 you meant. And if there is anything you have out
23 there that relates to the question I asked the
24 domestic industry, which is to the extent that the
25 majors, who are doing the exploration, often have said

1 in the past what the market needs to be for them to
2 justify exploration and that it's different for,
3 again, the easier versus the harder, whether you're
4 drilling in sand or you're, you know, the different
5 types of technology needed, how that would relate to
6 demand for this particular product, I would appreciate
7 seeing that, as well.

8 MR. BALKENENDE: Yes.

9 COMMISSIONER OKUN: Okay.

10 MR. BALKENENDE: Yes, we will provide that.

11 COMMISSIONER OKUN: And Mr. Herminghaus, I
12 have questions for you, but I will get them on the
13 next round. Thank you, very much.

14 CHAIRMAN PEARSON: Commissioner Williamson?

15 COMMISSIONER WILLIAMSON: Thank you. I do
16 want to express my appreciation for the fact that you
17 have come along way and you have to explain the
18 situation to us. Mr. Balkenende, there is one
19 question I have. I understand your -- I guess you
20 might say that this is -- my old strategy is to go
21 after the projects and offer Tenaris, take care of all
22 of your needs. I understand also that you said the
23 U.S. markets are mostly replacement markets, so not a
24 lot of big projects. But, suppose there are some big
25 projects that come along in the United States and if

1 the orders are still in place -- well, the orders are
2 not in place, how can you say that you are not going
3 to be exporting, say, from Argentina, if that is where
4 you have the product, because you're going -- I assume
5 if there is a big project, you want to supply all of
6 their needs?

7 MR. BALKENENDE: Yes, that is the part.
8 But, if we say there are some projects, it also
9 depends on how they have -- are being executed. The
10 United States is a very particular market in managing
11 projects. So, it really depends on what the case is.
12 We, also, have to say, same as in line pipe, the small
13 OD, even for a large project, the total quantities are
14 not substantial for the products under review. I
15 would like to make that statement. It's not, then, we
16 think it is a huge market. But, if you run a pipe
17 line, a lot more pipe goes in that than when you build
18 a refinery. So, I would not mind even sharing data
19 with confidentially on that part. But, our view is
20 that the products under review are the four inch,
21 four-and-a-half inch and down. It's not a dramatic
22 quantity that we envision even for a large project.

23 COMMISSIONER WILLIAMSON: Okay, because I
24 was just wondering about that, because it seems like
25 you win a project, you would want it all. Thank you.

1 Mr. Herminghaus, I get the impression that
2 you said unit values are, I guess, I think it was
3 \$1,200 or \$1,300 in the products that you sell per
4 ton. In other words, we talked this morning about the
5 fact that a lot of the Chinese imports are very cheap
6 and the U.S. manufacturers were looking to a certain
7 niche. It sounds to me that -- are you suggesting
8 that there is a higher niche still that you are
9 looking at, that your products are targeted?

10 MR. HERMINGHAUS: No. The \$1,600 that I
11 mentioned is the average sales price of all of our
12 products. We are not selling any subject products.
13 So those are border tubes, heat exchanger tubes,
14 hydraulic line tubing, OCTG. That's an average. I
15 just mentioned that number to characterize our company
16 as a niche player and not so much a commodities
17 producer.

18 COMMISSIONER WILLIAMSON: But for the
19 subject imports, I assume you are selling them outside
20 the United States; right?

21 MR. HERMINGHAUS: Yes.

22 COMMISSIONER WILLIAMSON: Now, the types of
23 those products that you are selling, are they at a
24 high price compared to what is being sold here?

25 MR. HERMINGHAUS: Yes. As we stated in our

1 questionnaire response, the prices we are achieving in
2 our key export market, which, by the way, are not
3 mentioned on the U.S. market as very attractive chart,
4 key markets for us are Canada, the Far East, and
5 Western Europe. All three are not mentioned on here.
6 Prices in those markets, the markets that are
7 achieving for our products are higher than the
8 prevailing market prices for pipe in the U.S., at
9 least the ones that we have knowledge of.

10 COMMISSIONER WILLIAMSON: Why is that?
11 Because, I got the impression that the U.S. was the
12 highest of all markets against the price.

13 MR. HERMINGHAUS: Well, that's the
14 impression that the domestic producers create. But,
15 for us, for Benteler, that is not true.

16 COMMISSIONER WILLIAMSON: Any explanation
17 for that or any -- about the nature of the foreign
18 market?

19 MR. HERMINGHAUS: I assume if this chart was
20 completed, it would show a different picture. There
21 is selectively some markets are being used here, the
22 Middle East, Eastern Europe, and China exports, to
23 show the attractiveness of the U.S. market. But, we
24 are setting in different markets and the bars would be
25 much higher, if you did that.

1 COMMISSIONER WILLIAMSON: It might be useful
2 if we have that --

3 MR. HERMINGHAUS: We can reemphasize that
4 information or we will submit that information. It is
5 in our questionnaire.

6 COMMISSIONER WILLIAMSON: Because, you,
7 also, mentioned, not really being concerned about
8 Chinese producers not being a threat to you, and I
9 sort of wrote a note. For how long? Or what is it
10 that you're doing that allows you not to worry as much
11 as everyone else seems to be about the Chinese
12 producers' threat?

13 MR. HERMINGHAUS: I am not saying that I'm
14 not worried about the Chinese producers. I'm just
15 saying we have maintained our quantities that we
16 wanted to sell in those key markets. Well, the
17 Chinese are a threat, no question. And if I look at
18 the U.S. market here, so far, the increased Chinese
19 volumes have been absorbed by increased demand. If
20 the increases in Chinese exports to this market, in
21 general, not just as SL&P pipe, continue, there will
22 be a problem, no doubt in my mind. But, the export
23 markets that we serve with our standard and line pipe
24 and those markets we have not had a problem competing
25 with the Chinese, because of different quality levels.

1 COMMISSIONER WILLIAMSON: Okay. This
2 morning, I asked about the -- what the U.S. industry
3 has done, the workers have done, and I was kind of
4 curious about the workers in your operations, then.
5 How do you sort of keep them competitive in global
6 markets? I guess that would be for both of you.

7 MR. BALKENENDE: Yes, let me. Workers, yes,
8 that is a continuous part of investing. I mentioned
9 earlier, and I will come back to the United States, we
10 came in -- even though we paid \$3.2 billion, the first
11 thing we did is we announced in November additional
12 investment of \$65 million to improve facilities and
13 for productivity reasons, for new investment, also for
14 the workers, and get different environments, the
15 quality, in general. And in our case, how do we get
16 workers across the globe? We share knowledge. We
17 created our Tenaris University. We get people through
18 training classes. That is a commitment that as, I
19 think, a global company, you get certain standards in
20 there. And I'm real proud of having developed that.
21 And we started here in the United States since the
22 acquisition we had last year.

23 MR. HERMINGHAUS: I am not sure whether I
24 understand the question. You are asking what are we
25 doing to maintain our workforce or --

1 COMMISSIONER WILLIAMSON: The
2 competitiveness.

3 MR. HERMINGHAUS: Oh, the competitiveness.
4 Well, there is no secret that Germany is a very high
5 cost country for labor. So, we have invested over the
6 years in automation and, at the same time, we have
7 worked with the unions to get flexible work hour
8 agreements, to allow us to react to market conditions.
9 That's how we try to stay competitive with the latest
10 state-of-the-art technology in tube and pipe making.

11 COMMISSIONER WILLIAMSON: Thank you. No
12 further questions at this time. Thank you.

13 CHAIRMAN PEARSON: Commissioner Lane?

14 COMMISSIONER LANE: Thank you. I, too,
15 welcome the afternoon panel. I know that this
16 question has been beaten to death, but I'm not sure
17 that I understood the answer. And I guess when I was
18 reading Siderca's brief, I was awfully concerned about
19 how I was going to ask questions about Maverick, when
20 it seemed to be bracketed every place possible. But,
21 I guess it's not bracketed, because we've all been
22 referring to it without regard to what was in your
23 brief. So, I guess what I really want to know is can
24 you, at the Maverick facility, if you chose to, make
25 seamless line pipe?

1 MR. BALKENENDE: No.

2 COMMISSIONER LANE: Okay. And in looking at
3 where you currently have your markets and these are
4 confidential, but are you not concerned that as China
5 becomes more and more of an exporter, that they may
6 target some of your market areas that are closer to
7 them than the United States?

8 MR. BALKENENDE: Yes.

9 COMMISSIONER LANE: And so, is it not -- do
10 you not agree then with that the Petitioners were
11 saying, that as China becomes more and more of a force
12 affecting your markets, then you might then want to
13 come to the United States, if these orders were
14 lifted?

15 MR. BALKENENDE: That could be, but I would
16 like to make a statement that every company has to
17 design strategies against competition, wherever that
18 comes from. And we are investing and we have chosen a
19 business model, in which we are very capital
20 intensive, do a lot of R&D. We do have concerns, but
21 we, also, have a challenge to position ourselves
22 against that. I do not like to disclose any
23 confidential strategy of the company, but I think any
24 company in the world always faces competition and you
25 design strategies on how to reposition yourself.

1 COMMISSIONER LANE: Okay. Now, Mr. Spak and
2 Mr. Herlach, I found it really interesting to read
3 both of your briefs on the issue of cumulation and I
4 must say that Germany's position on cumulation raised
5 a few eyebrows. And I had to read it two or three
6 times to make sure that I was reading it correctly.
7 Now, could you -- I would like for each of you to
8 discuss your different take on the cumulation issue
9 and why would the German producers be arguing for
10 cumulation and the Argentine producers be arguing for
11 decumulation?

12 MR. SPAK: Well, we're arguing for
13 decumulation, because of what Mr. Balkenende said. We
14 really do believe that when the Commission looks at
15 the different conditions of competition, everything
16 that Mr. Balkenende has said about the way the Tenaris
17 group positions itself to approach the project market,
18 a market that is not very vibrant here, it changes all
19 of the conditions of competition that the company
20 faces. And to me, one of the salient factors here is
21 that we can say with a pretty -- and say credibly, I
22 would say, that if this market were interesting to the
23 United States -- to Tenaris, it could supply this
24 market with this product from Canada and from Mexico.
25 And it is simply the fact that the market is not a

1 target market for Siderca in this product line.
2 Siderca, in this product line, Tenaris, in this
3 product line, looks for the green field projects, as
4 Mr. Balkenende has explained, and, therefore, the way
5 it does business makes it different than all of the --
6 than the other two countries.

7 So, when we look at cumulation under the
8 statute and we look at the traditional factors and
9 then we look at the Commission's practice in sunset
10 reviews, I think the Commission has very wisely noted
11 that because of the prospective nature of sunset
12 reviews, we have to consider other conditions of
13 competition. While Siderca's strategy has changed a
14 lot and it business effects the way precisely that
15 Siderca would approach a market and those are
16 precisely the kinds of factors that the Commission
17 could take into account, in its cumulation analysis.

18 COMMISSIONER LANE: And this change has
19 occurred since the last review?

20 MR. SPAK: Yes, Commissioner Lane.

21 COMMISSIONER LANE: Okay. Mr. Herlach?

22 MR. HERLACH: Commissioner Lane, I guess I
23 would say, when we looked at it, we have a somewhat
24 different practical situation than the folks that
25 Siderca have. And I guess I would say lots of things

1 have changed since this case started 12 years ago. As
2 you've heard, the industry has been restructured. The
3 energy industry looks different. The rig count is
4 back up. But, frankly, in good faith, we didn't see
5 anything that really changed in this area. So, we
6 think that from our perspective, the real point here
7 is on a cumulated basis, all of these orders should be
8 revoked and that's our view. And so that's why we
9 took the position we took.

10 COMMISSIONER LANE: Okay, thank you. Okay.
11 This is for both producers. In calculating your
12 capacity to product seamless SLP pipe, did you base
13 your calculation on running three shifts per day?

14 MR. HERMINGHAUS: Yes, we did.

15 MR. SPAK: Yes, we did.

16 COMMISSIONER LANE: Okay, thank you. Now,
17 this is for Mr. Herminghaus. I believe you responded
18 to a question from Vice Chairman Aranoff, that your
19 main market for all products was the European Union.
20 Was that your testimony?

21 MR. HERMINGHAUS: Correct.

22 COMMISSIONER LANE: What about your main
23 market for seamless SLP pipe, is that the European
24 Union or would your main market for seamless SLP pipe
25 be somewhere other than the European Union?

1 MR. HERMINGHAUS: European Union is only one
2 of our key markets. The others I mentioned earlier:
3 Canada, Far East, and the European Union, and in that
4 order, I would say.

5 COMMISSIONER LANE: Okay, thank you. The
6 U.S. producers provided a great deal of information on
7 political changes and policies in Venezuela and
8 changes in ownership of Venezuelan oil production.
9 How would these changes affect overall demand for
10 seamless SLP pipe and what, if any, impact would you
11 expect these changes in Venezuela to have on producers
12 in Argentina and Brazil and would they be positive or
13 negative? And I guess you can chose to talk about
14 Brazil, if you want.

15 MR. BALKENENDE: Well, as you may know, we
16 do have a pipe mill, a seamless pipe mill in
17 Venezuela. And political, I do not make any comment
18 about political statements. But, we know that
19 Venezuela sits on a lot of oil and we believe that all
20 developing countries, whatever regime, will seek
21 further growth. And that will require materials from
22 Venezuela, but surrounding countries. So, we see
23 growth happening in the part and we, of course, do not
24 know what ultimately with political turmoil what might
25 happen. But, if everything works further, we would

1 see further growth.

2 COMMISSIONER LANE: Okay, thank you. That's
3 all the questions I have.

4 CHAIRMAN PEARSON: Let me follow up on
5 Commissioner Lane's question by going back and
6 revisiting an issue that was discussed with the
7 domestic industry, and that is the effect of Venezuela
8 becoming a member of Merkeser (ph) quite recently.
9 Does anyone on this panel have enough knowledge of the
10 specifics of that accession to know whether there will
11 be a change in Venezuela's tariff treatment of imports
12 and whether that could have implications either for
13 the supply of product into Venezuela from Argentina or
14 Brazil or from third countries? Mr. Spak?

15 MR. SPAK: Chairman Pearson, I don't have
16 the information, but I'm sure our clients do. So, I'm
17 sure that we can provide an analysis of the
18 ramifications of Venezuela's accession to the Merkeser
19 (ph) for the seamless pipe industry.

20 CHAIRMAN PEARSON: Okay, because if this is
21 an irrelevant issue, you can just tell us that,
22 because I don't need to chase wild geese, okay.

23 MR. SPAK: I promise not to make anything of
24 it.

25 CHAIRMAN PEARSON: Okay. But, it seemed to

1 me that giving the timing of that accession relative
2 to this review and the potential for there could be an
3 interesting change in conditions of competition before
4 and after, that it would be good to understand it
5 better.

6 MR. SPAK: We will provide that. Thank you.

7 CHAIRMAN PEARSON: Okay, thanks. I think
8 the last thing I have is just a clarification on an
9 issue that has already been discussed. Mr.
10 Balkenende, if I understand correctly, the business
11 model that Tenaris would use now to sell seamless pipe
12 into the U.S. market basically would be to identify a
13 new project that's going to be build and then an
14 engineering company would be selected to build that
15 project and that engineering company would solicit
16 bids for pipe. And Tenaris would make an offer and if
17 that offer was accepted, then the pipe would be
18 delivered through existing distributors, but the pipe
19 would not actually be owned by the distributors,
20 rather it would be handled by the distributors for
21 delivery to this specific project. Is that correct?

22 MR. BALKENENDE: So far. Let me say that it
23 could be that we were asked to participate and there
24 are times we are not, because we have never pursued
25 this business within the United States. If we are

1 asked, we would approach this model and it could very
2 well be that the invoicing and the ownership would
3 transfer to a distributor. But, that is different
4 from selling in the spot market and not knowing how
5 the business goes.

6 CHAIRMAN PEARSON: Okay. Now, in terms of
7 Siderca's involvement with the U.S. market, is this
8 approach that we've just been discussing different
9 than what was happening back in the original
10 investigation, at which time Siderca did have some
11 substantial share of the U.S. market?

12 MR. BALKENENDE: The business model at that
13 time was indeed different. Siderca was acting on its
14 own and there was not the approach that we had the
15 full line of products to offer and it was not a
16 project approach like we have developed in the recent
17 years.

18 CHAIRMAN PEARSON: Okay. And at the time
19 Tenaris acquired Siderca, was there a conscious
20 change, at that point, to take a different operating
21 philosophy, take a Tenaris philosophy and establish it
22 on Siderca?

23 MR. BALKENENDE: It's a development.
24 Siderca -- ultimately the group grew. And I, also,
25 have to say, the strategies we have developed are also

1 related to the reduced availability of SLP within the
2 Tenaris group. More and more went to the OCTG and
3 other highly added products. So, at a time that you
4 say maybe years ago, there was more product available.
5 There is now less available. And then over time, new
6 strategies were developed and this is one of them.

7 CHAIRMAN PEARSON: Well, it's an interesting
8 story that you tell about the change in the business
9 model. If you have anything that could be put on the
10 record in the post-hearing brief that would make it
11 quite clear that that change happened and that it was
12 a conscious corporate strategy change, that will be
13 helpful.

14 MR. BALKENENDE: Yes, we will provide that.

15 CHAIRMAN PEARSON: Okay. So, at this point,
16 I have no further questions. So, Madam Vice Chairman?

17 VICE CHAIRMAN ARANOFF: Thank you, Mr.
18 Chairman. Let me follow up on the line of questioning
19 that the Chairman was just asking by switching and
20 having you go through again how that business strategy
21 in the seamless SLP part of the market is different
22 from the strategy that Tenaris is pursuing with
23 Maverick in the U.S. market, just to make sure I
24 understand you. I thought I heard you say that the
25 plant from Maverick is different, that it doesn't

1 depend on project-based participation in the refinery
2 sector, that it depends on participation in the
3 exploration sector, and does that also involve a
4 different relationship with distributors in a non-
5 project-based? Or how is it different?

6 MR. BALKENENDE: Yes. The products are
7 actually geared to a different line. The vast
8 majority of the production facilities of Maverick
9 relate to all kinds of tubular goods and that is a
10 model, in which we, also, engage distribution. But,
11 that's a separate part from where we see the seamless
12 line pipe going. And I apologize, it is a complicated
13 version, in which -- because, globally, we see
14 essentially four business units: oil country tubular
15 goods to oil field services, pipe line services,
16 process and power, and mechanical and automotive.
17 Those are the four different views from our
18 perspective on life. And for each of them, we have
19 different strategies.

20 The SLP, in this review, goes to this one
21 area of process and power. And for that, we have this
22 strategy. We have globally a limited quantity
23 available. The global project market, which I am
24 happy to share with you, is huge, primarily outside
25 the United States. The seamless market in the United

1 States is huge; but for projects, it maybe not in the
2 world market such a huge market. I hope to get you
3 those numbers. I will get you those numbers.

4 That is our view, to say the strategy for
5 SLP is maybe entirely different from oil country
6 tubular goods, which is a huge market in the United
7 States. And that was the acquisition we had with the
8 welded products. I apologize if you are confused, but
9 those are different business units or business
10 segments for us. Does that --

11 VICE CHAIRMAN ARANOFF: Yes. That's very
12 helpful. Thank you. That has cleared it up some.

13 Mr. Herminghaus, you've mentioned a few
14 times that one of your key markets outside of Europe
15 is Canada. I think I know what you're going to
16 answer, but could you just tell me, with respect to
17 this product, why Canada is a key market and the
18 United States wouldn't be?

19 MR. HERMINGHAUS: In the United States, we
20 have this antidumping in place for the last 12 years.

21 VICE CHAIRMAN ARANOFF: Right.

22 MR. HERMINGHAUS: That's why we're not
23 selling here.

24 VICE CHAIRMAN ARANOFF: Well, I understand
25 that's why you're not selling here. But, I mean, you

1 described Canada as one of your key export markets,
2 which --

3 MR. HERMINGHAUS: Yes.

4 VICE CHAIRMAN ARANOFF: -- which --

5 MR. HERMINGHAUS: Well, Canada has some
6 requirements, technical requirements for low
7 temperature service that is not required in other
8 parts of the world, and it allows us to separate
9 ourselves from the chief competition.

10 VICE CHAIRMAN ARANOFF: Okay, okay. That's
11 helpful. We had a great deal of discussion today
12 about AML's approved manufactured list. And Mr.
13 Balkenende, you testified or answered a question from
14 one of my colleagues about that, saying that as
15 Tenaris acquires plants, you try to bring them up to
16 that standard, so that they can all be on AMLs, but it
17 takes some time. So, I wanted to ask you, if you
18 could just put on the record for us which AMLs Siderca
19 is currently on.

20 MR. BALKENENDE: Siderca should be on almost
21 all in the world.

22 VICE CHAIRMAN ARANOFF: Okay.

23 MR. BALKENENDE: I could not even think of
24 one that we would not be on.

25 VICE CHAIRMAN ARANOFF: Okay. And

1 Herminghaus, would that be the same for your company,
2 that you would be on all the AMLs?

3 MR. HERMINGHAUS: No. No, we have not spent
4 much time and effort to get on the AMLs.

5 VICE CHAIRMAN ARANOFF: So, would that mean
6 you are not on any or you're not on a lot or --

7 MR. HERMINGHAUS: We are not on a lot.

8 VICE CHAIRMAN ARANOFF: Okay. If you could
9 maybe specify the ones that you are on or any large
10 ones you know of that you're not on, just so that we
11 can get a sense. It's very difficult in these cases
12 to sort of quantify based on people's --

13 MR. HERMINGHAUS: Okay.

14 VICE CHAIRMAN ARANOFF: -- general
15 statements about which lists they're on and which
16 lists they're not on. Thank you.

17 One of the arguments that the domestic
18 producers have made is that given the rising level of
19 non-subject imports in the U.S. market, the Commission
20 should not be looking at whether SLP demand is likely
21 to stay high, as it currently is, high, but whether
22 it's likely to grow at a rate that is sufficient to
23 absorb likely increases in both subject and non-
24 subject imports. And I know that some of you did
25 mention today that you thought so far, increases in

1 imports, for example, from China into the United
2 States have been absorbed because of rising demand.
3 As we look forward, do you agree with the domestic
4 industry that the question we need to be asking
5 ourselves is the rate of growth and demand, as opposed
6 to just whether it's going to stay high?

7 MR. BALKENENDE: With the -- I think we need
8 to review the forecast on that part. How we review
9 the domestic market, I would like to -- we have not
10 done a real thorough analysis on this particular
11 review of product. We have, I said, our focus has
12 been on a limited area of the market and this is a
13 very generic question about the whole industry. And
14 before we can give a solid answer, we should look at
15 the five other areas that we have not really focused
16 on and that would have a greater impact on this than
17 the area that we were looking at.

18 VICE CHAIRMAN ARANOFF: Okay. That's fair
19 enough. Do you want to add something, Mr.
20 Herminghaus?

21 MR. HERMINGHAUS: I think I mentioned
22 earlier that, in my view, my personal view, if the
23 increase of Chinese imports into this market
24 continues, and that's not just limited to SL&P pipe,
25 there is a problem in this market. There will be a

1 problem.

2 VICE CHAIRMAN ARANOFF: Do you see -- I
3 mean, one of the things that the domestic producers
4 testified to this morning was that they saw Chinese
5 product moving up, sort of the quality and specialty
6 levels, such that it's getting on to AMLs and being
7 able to compete for sort of higher spec applications.
8 Does that mean that you would expect that even in
9 these kind of niche or higher-end products that you
10 might hope to sell into the U.S. market, that you
11 would see competition from Chinese or other low-cost
12 suppliers?

13 MR. HERMINGHAUS: Well, I have no detailed
14 knowledge of what the Chinese importers are doing
15 here. My comment referred only to the overall volume
16 that we have seen in the import statistics and the
17 pressed and piping tube report. I don't know how many
18 AMLs there are and how many niches they play. I doubt
19 that we would see them on the very small ODs; but,
20 other niches, I don't know.

21 MR. BALKENENDE: If -- maybe from another
22 angle, we have and we are exporting quite some
23 quantities to China and that, also -- and we've done
24 it for many years. And the fact that we still do --

25 VICE CHAIRMAN ARANOFF: When you say, 'we,'

1 you mean Tenaris?

2 MR. BALKENENDE: Tenaris.

3 VICE CHAIRMAN ARANOFF: Not from -- from
4 Siderca or from other facilities?

5 MR. BALKENENDE: I apologize. I'm
6 brainwashed in Tenaris. So, we are one family and we
7 are all cousins, brothers, whatever, but we are one
8 family and that is Tenaris. So, I apologize. But,
9 that's -- and that's why we say we sell to the Chinese
10 market and that is the products. They, obviously, do
11 not produce or have difficulty with producing them.
12 Is there an expectation that in time, they will
13 develop? I respect them. I think they will develop.
14 How fast? It has taken us -- some of the companies in
15 the industry, the well-known ones, the ones we heard
16 this morning, have taken decades to master the art of
17 producing the more difficult materials. So, yes, it
18 will come, but how fast is the question.

19 VICE CHAIRMAN ARANOFF: Okay. I appreciate
20 all of those answers and thank this panel for all of
21 your answers to our questions this afternoon. Thank
22 you, Mr. Chairman.

23 CHAIRMAN PEARSON: Commissioner Hillman?

24 COMMISSIONER HILLMAN: Thank you, Mr.
25 Chairman. At this point, I have no further questions,

1 but do want to thank you, very much. Your answers
2 have been extremely helpful and, again, we, very much,
3 appreciate your taking the time to come and to travel
4 and to be with us this afternoon. Thank you.

5 CHAIRMAN PEARSON: Commissioner Okun?

6 COMMISSIONER OKUN: I think I have just
7 question left for Mr. Herminghaus that I didn't see
8 get answered or posed from my colleagues. In response
9 to the Vice Chairman, when asked about the Canadian
10 market and the presence of your company there, is for
11 the reason -- the distinction between Canada and the
12 United States is the dumping order, and you made
13 comments, other comments about how -- it's a niche
14 product that you believe would be in the United States
15 or that you believe your company would be marketing.
16 I'm trying to understand a little bit better how you
17 would see -- if the order were lifted, how you would
18 see the product competing in the United States, in
19 terms of pricing, pricing mechanisms, whether you
20 would be more competitive with the non-subject that's
21 here. Because, again, a key part of the domestic
22 industry's argument, as you heard it this morning,
23 putting aside the China argument of the push out,
24 which we talked about a lot, is that these producers,
25 your company, would come in and compete directly for

1 that part of the market that remains. I'm trying to
2 make sure I understand what your response is on that,
3 on the pricing end.

4 MR. HERMINGHAUS: Yes. Our plan is not to
5 compete on price. As I mentioned earlier, we are
6 looking for products that are either not manufactured
7 here or manufactured very infrequently. That is our
8 goal to establish here. Besides, as I mentioned
9 earlier, we are fully booked. We don't have the
10 capacity to ship thousands and thousands of tons here.

11 COMMISSIONER OKUN: Okay. If there is
12 anything additionally that you could provide, and I've
13 talked about allocations, if there is anything about
14 that, that hasn't already been requested, to go ahead
15 and put that on the record and, then, also, anything
16 about behavior in other markets or pricing in other
17 markets that may be different than what's reflected in
18 the staff report, we would appreciate seeing that, as
19 well. And with that, I do not have any additional
20 questions. I want to thank you, again, for all of the
21 answers you have provided.

22 CHAIRMAN PEARSON: Commissioner Williamson?

23 COMMISSIONER WILLIAMSON: Just a couple of
24 questions. Mr. Balkenende, I think it is my
25 understanding in the past, and looking at reviews,

1 when there is -- you have an exporter or a company
2 that's a large exporter and very much export oriented,
3 the Commission has intended to find that there is no
4 discernible -- that we have such a situation that is
5 less likely they're going to find that if you lift the
6 order, there won't be an impact. And I'm wondering
7 whether or not you're suggesting to us that we change
8 that trend or pattern here, when, clearly, you are a
9 very export-oriented company and very important
10 company and part of a large family?

11 MR. SPAK: If I could speak to that first,
12 Commissioner Williamson?

13 COMMISSIONER WILLIAMSON: Sure.

14 MR. SPAK: Two comments. First, we don't --
15 the reason we say we don't see an impact here if the
16 order is revoked is that we don't -- Siderca doesn't
17 have any more capacity. It's operating at extremely
18 high levels of capacity. It's been doing that for a
19 long time and it is projected to keep doing it. And
20 its mill, not only to the small diameter seamless line
21 and pressure pipe, but also the mill, seamless mill is
22 operating a very high level of capacity. And given
23 the business plan to try to service the world market
24 for particular types of projects and the mill
25 reservation system that the company has, they just

1 look at what they can produce and what they could
2 possibly send to the United States and they don't see
3 that they're going to ship to the United States. So,
4 if we don't have any imports, we don't think we're
5 going to have an impact. But, that's on one level.

6 And I would just like to speak to the other
7 issue, too, because there was some questioning
8 earlier. And I appreciate Commissioner Hillman's
9 question this morning, also, about this issue of the
10 export orientation and that the Commission has been
11 trying to delve more into this, what does it mean and
12 how does it effect the cumulation issue. I think the
13 real issue goes to the commitments of your capacity.
14 I mean, if you have customer relations and your
15 capacity is committed, I, personally, don't think it
16 should really matter whether those commitments are for
17 your home market or for your export markets. What is
18 really different, if you don't have -- the key issue
19 here is what do you have available and what can come
20 to the U.S. market. Siderca, through -- operating
21 through Tenaris, is saying that it doesn't have the
22 ability to bring this product to the market and if it
23 had any interest in the market, it could get the
24 product from its mill in Canada. So, as we look at
25 this -- I do encourage you to look at these cumulation

1 issues and apply the test of really is it likely that
2 a company like Siderca would be taking part of its
3 capacity, when it's fully loaded, and producing a
4 product, shipping it to the United States for a market
5 that it's not interested in, especially when it can do
6 -- it can supply that market currently from other
7 countries where it has a mill that is operating. I
8 hope that's responsive.

9 COMMISSIONER WILLIAMSON: Okay. Thank you
10 for that. But, I guess I've heard this is a cyclical
11 industry. Global economy changes very rapidly. There
12 were some forecast about oil and gas demand in the
13 future and I raised questions about the negative
14 nature of that. So, I guess you could say, things can
15 change, though, can change fairly rapidly. Would that
16 be fair?

17 MR. BALKENENDE: If I may make one comment
18 about that strategy, because we believe the long term,
19 I think if we would have a feeling it was pretty
20 cyclical and the business would turn down next year,
21 then our investment we made last year was definitely
22 not a wise one. And we believe in the long-term
23 energy forecast, because of the growth of China, India
24 coming up, that those parts are a bit more longer
25 term. This is not a cycle from the past, why there

1 were more short-term imbalances. We believe it's a
2 lot more long-term fundamentals behind the market.

3 MR. SPAK: And I think as we go forward and
4 talk about this cyclicalilty of the industry, I think
5 everybody would concede, if there's a cycle, it's
6 operating on a whole -- a lot higher level now than
7 it's ever operated before. So, it's okay to talk
8 about a business cycle; but, the levels of gas prices
9 and energy demand that we're seeing now has nothing to
10 do with what we saw back in 1995 and 2001. So, things
11 have changed. Can they change again? Yes, they can
12 change. Again, I would just say that the Commission
13 is charged with trying to determine what's likely to
14 happen and we just don't see a likely change from what
15 we see that's prevailing in the market now and the
16 forecasts don't see it either.

17 COMMISSIONER WILLIAMSON: Thank you. I want
18 to go back to another question I asked this morning
19 about raw material and the cost of your raw material
20 and how do you handle the problem, increases and that
21 and what -- how do you deal with that. Do you pass it
22 on to your customers or are you, you know, just --
23 what is the impact on the way you operate?

24 MR. BALKENENDE: We have applied them,
25 different models, depending on the circumstance.

1 Where we have multi-year agreements, we may have
2 components of the raw material being embedded in a
3 pricing mechanism. We have other markets where we
4 review pricing on a periodic base, where it is just
5 reviewed. And we have parts where there might be a
6 surcharge in place. But, we've applied it in
7 different markets with different strategies.

8 COMMISSIONER WILLIAMSON: Okay. Mr.
9 Herminghaus?

10 MR. HERMINGHAUS: Yes, it's the same with
11 us. For most products, we have embedded the raw
12 material price increases into our prices. But for
13 longer-term contracts, like boiler tube projects, we
14 work with a scrap surcharge, where we have indexed our
15 base price to a certain scrap price. There is a scrap
16 surcharge and also LOA surcharges. But, it's just for
17 longer-term boiler tube projects.

18 COMMISSIONER WILLIAMSON: Earlier, you
19 mentioned that you -- about the question of AMLs, that
20 you did not -- were not on many lists and that you
21 didn't feel the need to be that and I was just sort of
22 wondering why. Is your product so specialized that
23 you don't need -- your products tend to be so
24 specialized that you don't need to be on such lists?
25 Or --

1 MR. HERMINGHAUS: My experience is that AMLs
2 are used for -- primarily for maintenance, repair
3 projects, for refineries, petrochemical industries.
4 And that's an area where we are not very active here.
5 That's why we have not spent much time -- I'm sure we
6 are on a few AMLs for OCTG and I would have to look
7 that up. I don't know offhand. I know we are not on
8 Exxon's, but I don't know the other ones we are on. I
9 would like to address that, again, in the post-hearing
10 brief.

11 COMMISSIONER WILLIAMSON: And one other
12 quick question. What is the impact of Chinese imports
13 in the EU, which, I guess, is one of your major
14 markets?

15 MR. HERMINGHAUS: To this point, very
16 sporadic. We're seeing some, but very sporadic; no
17 big quantities.

18 COMMISSIONER WILLIAMSON: So, this is the
19 market for them.

20 (Laughter.)

21 COMMISSIONER WILLIAMSON: Thank you, Mr.
22 Chairman.

23 CHAIRMAN PEARSON: Commissioner Lane?

24 COMMISSIONER LANE: I have one more
25 question. Mr. Spak, I believe either you or your

1 client said that Argentina had no interest in the U.S.
2 market, because of its capacity utilization. In
3 looking at confidential data, it appears that your
4 capacity has been reduced substantially since the
5 orders first went into effect. And it would appear
6 that the reduction in capacity is voluntary, not -- it
7 didn't appear to be a dismantling of any facilities,
8 but other ways of reducing the capacity. So, if you,
9 at one time, were at a -- had the capability of the
10 higher capacity and higher production and if your
11 current markets could be targeted by the Chinese, why,
12 then, would you not come back in to the U.S. market,
13 assuming that you could compete on price here in the
14 U.S. market?

15 MR. SPAK: If I understand, then, I would
16 agree with the premise. No, it's a good question, in
17 the sense that you're saying it's a voluntary, because
18 it reflects the product mix that the company chose to
19 product. So, those capacity numbers properly reflect
20 what the mill could produce given the products that it
21 had orders to produce.

22 COMMISSIONER LANE: Right.

23 MR. SPAK: And so --

24 COMMISSIONER LANE: It's a product of
25 demand. And so --

1 MR. SPAK: Yes, that's correct.

2 COMMISSIONER LANE: -- reduction was done
3 because you had low demand.

4 MR. SPAK: Right. So -- not that we had low
5 demand, but we may have had high demand for products
6 that made the mill less efficient or produced a
7 smaller amount of tons. It may have still been
8 operating at a very high level of capacity
9 utilization, but the products that it's producing
10 might be way less. And, therefore, when you look at
11 the total capacity in tonnage terms, you get a lower
12 level of capacity, capacity and -- even though you
13 have a high level of capacity utilization.

14 Now, are we saying that if we were to lose
15 all of our markets, if Siderca were to lose all of its
16 markets to the Chinese and it didn't have anything to
17 produce, because it started over and produced only SLP
18 to produce to the United State, you know, I think that
19 scenario is not anything that anybody would say is
20 possible, not even likely. It's just not possible.
21 This is a producer, who has a long history of
22 successfully exporting around the world, producing and
23 exporting around the world. It has relationships that
24 are not spot market relationships, that are long-term
25 relationships with customers. It's a major player

1 with major consumers around the world. It's not going
2 to lose its business around the world to the Chinese
3 producers.

4 Now, again, I would say, are we sitting here
5 saying nobody is worried about the Chinese?

6 Obviously, not. Nobody can say that. But, I think
7 it's just everything that we've said is based on our
8 realistic projection of what the demands are for
9 Siderca's products, what the mill is programmed to
10 produce for the budget years for which they forecast.
11 And when you do that calculation, which we will
12 provide, you just don't have very much tonnage left to
13 dedicate to this product, which -- and there is no
14 reason to send it to a market when this market doesn't
15 have the kind of projects that Siderca wants to
16 supply. I hope that's responsive.

17 COMMISSIONER LANE: Well, I'm sure that may
18 be true, but I just want to clarify that the capacity
19 that I'm looking at and the production that I'm
20 looking at are for the subject product and the staff
21 report appears to say that the facilities are there
22 and can produce the same amount of product that you
23 produced in 1994, if you chose to do so.

24 MR. BALKENENDE: Just to maybe clarify, the
25 total capacity of the plants, I think, has remained

1 the same. But, because of all of the investments we
2 have made, it's basically economically unfeasible to
3 leave the products we have, because it would mean that
4 half of the plant would have unused tooling and
5 equipment. So, if I may say, the total capacity may
6 be the same, but is less available for the SLP. Does
7 that --

8 MR. SPAK: If I can try, also. So, if we
9 have, just throw out a number, if we have a million
10 tons and you're one, we're thinking of the company
11 wants to produce 500,000 tons of OCTG and 300,000 tons
12 of -- or 500,000 tons of SLP. If in the next year the
13 demand -- or in the next time it's budgeted and the
14 plant is programmed, it produces 700,000 tons. It's
15 not necessarily a linear reduction to 300,000 tons of
16 SLP. It may go much less, because you're now using
17 more of your capacity. So, I think that's the kind of
18 reduction in capacity that you're seeing reflected in
19 those figures.

20 Now, to the extent you're talking about --
21 if you're suggesting we have a lower -- or utilization
22 of capacity for SLP is small, I don't think it's
23 small. I don't remember the numbers off the top of my
24 head. In some years, it was flat out at 100 percent,
25 but all other years, it was very, very high, which, to

1 us, means that it's essentially effectively operating
2 at full capacity.

3 COMMISSIONER LANE: Okay, thank you. That's
4 all the questions I have.

5 CHAIRMAN PEARSON: Madam Vice Chairman, did
6 you have further questions?

7 (No further questions.)

8 CHAIRMAN PEARSON: Any further questions
9 from the dais?

10 (No further questions.)

11 CHAIRMAN PEARSON: Okay. Do members of the
12 staff have questions for the Respondents' panel?

13 MS. PREECE: Amelia Preece, Office of
14 Economics. Just a couple of simple questions that I
15 hope you can answer in your brief. I would like to
16 have any more evidence you have on this project focus
17 that you can give us. That would really be helpful.
18 And, also, are there any projects in the United States
19 that you are now soliciting or -- and if there are,
20 how long would it be before they start; and if you're
21 not soliciting, how long would it take from the
22 beginning of such a relationship to actually selling
23 in the United States, if you were to get on this kind
24 of thing?

25 MR. BALKENENDE: We will provide you with

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1 those details, because that's, obviously, a
2 commercial, confidential. But, we will definitely get
3 you that information.

4 MS. PREECE: Staff has no more questions.

5 CHAIRMAN PEARSON: Does counsel for the
6 domestic industry have any questions?

7 (No questions.)

8 CHAIRMAN PEARSON: Then, I guess it's time
9 to dismiss this panel. Once, again, thank you, very
10 much. This has been an extremely interesting day.
11 The afternoon has been worth staying awake for. It's
12 been very good. So, thank you, very much.

13 CHAIRMAN PEARSON: Let's see. The time
14 remaining, I am advised that those in support or
15 continuation for the orders have three minutes left
16 from their direct presentation, plus five minutes for
17 closing, so eight minutes. And those in opposition to
18 continuing the orders have 34 minutes left from the
19 initial presentation, plus five minutes for closing,
20 or a total of 39. Mr. Vaughn, how do you prefer to
21 proceed? Do you want to devote time for rebuttal and
22 then -- or do you want to lump eight minutes together?

23 MR. VAUGHN: You know, I'm willing to -- I
24 will do whatever is easier for the Commission. I can
25 do eight minutes in a row or I can do three minutes

1 and then come back later and do five minutes,
2 whichever is easier for you guys.

3 CHAIRMAN PEARSON: Does counsel for the
4 Respondents have a preference one way or the other?
5 Okay, because if you wanted a chance to rebut his
6 rebuttal, then he should do the rebuttal and then you
7 would get a crack. Okay, fine. Why don't we proceed,
8 as you've suggested, then, Mr. Vaughn, you may take
9 your eight minutes and roll with it. And perhaps if
10 counsel for the Respondents could use somewhat less
11 than 39 minutes, that might be okay.

12 MR. SPAK: We'll do that, Mr. Chairman.
13 Thank you.

14 CHAIRMAN PEARSON: Okay, fine. So, let's
15 dismiss this panel, as Mr. Vaughn is coming forward.

16 (The panel is dismissed.)

17 CHAIRMAN PEARSON: I would just say that I
18 think that if there is no objection, we should award
19 the quick study award to Commissioner Williamson, who
20 had access to this voluminous confidential record for
21 less than 24 hours before he sat down here this
22 morning. Now, I don't know whether he slept last
23 night, but I've had access to this record for some
24 weeks and I don't think I did it more justice to it
25 than he did.

1 COMMISSIONER WILLIAMSON: Thanks to good
2 staff.

3 CHAIRMAN PEARSON: Okay. Mr. Vaughn?

4 MR. VAUGHN: Chairman Pearson, members of
5 the Commission, thank you, very much. First of all, I
6 would like to make just a few rebuttal points. There
7 was a reference to investments made by Koppel and U.S.
8 Steel this afternoon and we'll discuss this more in
9 the post-hearing brief, but just to state for the
10 record, neither of those investments relates to the
11 subject products. They relate to other products that
12 are not before you here today. So, the fact that
13 those investments were made does not indicate anything
14 regarding the future of this product.

15 Second of all, there was a reference --
16 there were a lot of references to Tenaris can serve
17 this market from Mexico and Canada. There was at
18 least one reference to the idea that Mexico could
19 serve -- that Tenaris could serve this market from
20 Italy. And I just wanted to say with respect to
21 Italy, they told the ITC in 2001 that they cannot make
22 this product in Italy. And, in fact, that is the
23 reason that the Commission gave for revoking the
24 antidumping order with respect to Italy. So, it is
25 incredible that now, after you believe their claim and

1 you revoked the order on Italy, now they come in and
2 argue, well, you should revoke the Argentinean order,
3 because we can serve the market on Italy. So whatever
4 happens, the argument with respect to Italy should be
5 completely rejected.

6 Third, there were a number of references
7 this afternoon to the idea of customer commitments.
8 We don't want to serve this market, because we have
9 customer commitments. Let's be very clear on what we
10 are saying here. We are not arguing and have never
11 argued that they are going to abandon other customers
12 in other markets to come to this market. We argue
13 that if anything, the customers that they are already
14 serving in other markets, which are also present in
15 this market, will ask them to come into this market
16 and that their whole global strategy is predicated on
17 serving various customers everywhere in the world.
18 And it makes no sense to say that you're going to
19 serve these customers everywhere in the world except
20 the United States. So, we think that our theory of
21 the case is completely consistent with what they've
22 described as their own basic commitment to their
23 customers. Their customers are going to want them to
24 be here. They will -- they are a dumped option and,
25 therefore, it would be a low-priced option.

1 Having said that, now, let me turn to sort
2 of the summary of what has happened today. The
3 subject producers have now challenged the main points
4 that we made this morning. First, that this market is
5 being hit with a tremendous wave of non-subject
6 imports. Nobody denies that.

7 Second, that because of this wave, U.S.
8 producers have been forced to concentrate on
9 customers, who are not yet willing to use imports from
10 non-subject countries. Nobody has denied that.

11 Third, that this portion of the market is
12 shrinking, as more and more customers accept imports
13 from the non-subject countries. That's really not in
14 dispute.

15 Finally, that subject imports would be
16 acceptable to all its customers and that subject
17 producers could, therefore, compete directly with the
18 domestic producers in the high-end portion of the
19 market.

20 None of those points are in dispute. None
21 of them have been disagreed with. Instead, subject
22 producers have made a number of claims that are simply
23 not credible.

24 First, they claim, they repeatedly claim,
25 they have no interest in this market. This is not

1 credible. The record shows that, in fact, Argentina,
2 Brazil, and Germany are all shipping significant
3 volumes of seamless tubular products to the United
4 States. They just don't ship this product. That is
5 clearly the effect of the orders. If the orders are
6 revoked, they will simply expand their product line to
7 include small diameter seamless pipe. It makes no
8 sense to conclude that they will serve all aspects of
9 the U.S. market except for this one product.

10 Second, Siderca claims that Tenaris could
11 serve this market from Mexico and Canada. Now, in the
12 first place, the Commission doesn't have any data
13 regarding Canada or Mexico or their operations in
14 Canada or Mexico. We don't know what the capacity
15 utilization is in those plants. We don't know what
16 the capacity is in those plants. We don't know how
17 much the capacity is broken down to different products
18 within those plants. We have very little information
19 regarding those plants. Furthermore, as Commission
20 Okun correctly noted, the record shows that Argentina
21 ships significant volumes of seamless pipe to Mexico
22 and Canada during every year of the period of review.
23 This fact shows that Tenaris has customers in those
24 markets that it cannot supply without Argentine
25 shipments. Similarly, Tenaris would have U.S.

1 customers that can only be supplied from Argentina.
2 It is ludicrous to pretend that they will turn down
3 business on the grounds that they cannot serve those
4 markets or refuse to serve those customers with
5 Argentinean imports.

6 Third, subject producers claim that demand
7 will somehow insulate domestic producers from any
8 increase in imports. But history shows that excess
9 supply can even overwhelm strong demand. The great
10 steel crisis of the late 1990s, for example, that ran
11 in 1998, 1999, 2000, all that happened during the time
12 of strong demand. While there is some evidence that
13 demand may remain at current levels, there is no
14 reason to believe and subject producers did not really
15 argue that demand will somehow increase even more
16 sufficiently to offset a new surge of imports from the
17 subject countries.

18 Fourth, subject producers contend that they
19 will focus their efforts in the U.S. on specialized
20 high-end production, such as projects. But, this is
21 our whole point. We have already lost the low-end of
22 this business to countries like China. Now, more than
23 ever, it is essential that domestic producers not be
24 forced to compete with dumped imports at the high end
25 of the market.

1 Finally, subject producers claim that if we
2 have a problem with China, we should bring a case
3 against China. Well, they have apparently
4 misunderstood our argument. The whole point of our
5 testimony this morning is not necessarily -- is not so
6 much what China is doing in and of itself, but it is
7 that Chinese imports have put domestic producers in a
8 position, in which they are extremely vulnerable to a
9 new surge of subject imports. We need -- because of
10 the surge that's coming in from non-subject markets,
11 we need the type of high-end customers that would also
12 be served by the subject producers. If we lose that
13 business, we have nowhere else to go. Thus, there is
14 no inconsistency between what we've said regarding
15 China and what we've said about the subject producers.
16 The two parts of the argument are closely connected.

17 In conclusion, the domestic producers should
18 not be punished for their own success or for the
19 effectiveness of these orders. The primary argument
20 that is put forward by the subject producers here
21 really is that because the domestic industry has made
22 profits over the last three years, the order should be
23 revoked. This is not correct. The orders have made
24 the market much more efficient and domestic producers
25 have done everything they can to take advantage of

1 those conditions. It makes no sense to punish these
2 companies for their efforts by forcing them to compete
3 against dumped imports.

4 For all of these reasons, we urge the
5 Commission to maintain these orders. Thank you.

6 CHAIRMAN PEARSON: Thank you, Mr. Vaughn.
7 Mr. Spak or Mr. Herlach and Mr. Spak? Microphone,
8 please? How else are you going to use the 39 minutes?

9 MR. HERLACH: Let the record reflect we will
10 not use the 39 minutes. Just a couple of comments, in
11 view of some of the things that Mr. Vaughn said. Just
12 to be absolutely clear, Mr. Herminghaus, I think, made
13 it crystal clear that as to Benteler, they are looking
14 to come into this market, if at all, in a very limited
15 range of products, which the U.S. industry hasn't had
16 the ability to produce or any interest in producing.
17 So, with respect to the number of comments we just
18 heard from domestic industry's counsel, they're just
19 not relevant to Benteler. That's not what Benteler's
20 approach is and it's not reflected of what they do.

21 Secondly, I just want to remind the
22 Commission of one of the comments that Mr. Herminghaus
23 pointed out with respect to the domestic industry's
24 testimony this morning, namely that with respect to
25 the other German producer about which we've heard some

1 this morning and this afternoon, BNM, they're already
2 here. The reason they're there is because they
3 already sell through their French company. And I
4 would argue that the best indication of what they
5 would do if the German order were to be lifted is what
6 they're doing for France, which is, by the admission
7 of the domestic producer's own witnesses, selling at
8 the same price as the U.S. industry. So, there is
9 really no threat there either.

10 With respect to the long peration on how we
11 didn't disagree with anything that the domestic said
12 this morning, well, that's because they presented the
13 wrong case. We don't disagree that China is a
14 potential problem. I mean, you heard that from our
15 witnesses. It's just not the case that's in front of
16 you. We're not suggesting that China isn't at some
17 level relevant. Obviously, it's a condition of
18 competition that you have to take into account in your
19 deliberations. But, basically, you heard the Chinese
20 case today. You didn't hear the case reflected
21 against Argentina, Brazil, and Germany.

22 And, finally, as to the comment this
23 morning, that the U.S. industry is on a knife edge, I
24 think the expert for the domestic industry used that
25 term, as did several of their witnesses, some edge. I

1 would argue to you it's more like a plateau. This
2 industry has done terrifically well. They've been
3 enjoying record profits. Those profits continue to be
4 on the horizon. They've invested. What more can you
5 ask for in a case where revocation of outdated,
6 frankly anachronistic orders are involved. I mean,
7 those orders should be lifted. The conditions have
8 changed totally since 12 years ago. And I would
9 submit that the Commission should use its common
10 sense, as it looks at all the factors, as I know you
11 will, to revoke these orders.

12 MR. SPAK: I just have a few comments in
13 conclusion. First, I would like to start, again, by
14 thanking the Commission, Mr. Chairman, Commissioners,
15 and I would also like to say it's been an honor, I
16 think, for all of us in the room to be in the 256th
17 hearing for Commissioner Hillman and the first for
18 Commissioner Williamson.

19 We all know that these sunset cases involve
20 predictions. They require a mix of historical facts
21 and a little bit of looking into the future. But,
22 it's really -- one thing is crystal clear, that you've
23 got to stick -- we've got to meet the legal standard
24 of likely. So, we can sit here and talk about all
25 these possibilities of what might happen, what could

1 happen. But, we really do have to pay and respect the
2 statute and say what's likely to happen here.

3 Now, in that context, we see an industry
4 that is doing very well in the United States and the
5 fundamentals of their business are good. They are
6 sound. The projections point to a bright future.
7 Now, in that light, I would like to point out that
8 with -- we just heard a few minutes ago, and it's been
9 really a theme all morning, that this is not -- the
10 U.S. industry says we're misunderstood our case.
11 We're not talking about a case against China. We're
12 talking about the effect that the Chinese imports have
13 on your additional products that will come here.

14 Well, there are two problems with it. First
15 of all, because they didn't -- because China is not
16 involved in this case, you don't have data for China.
17 And if we go back to the point about the need to make
18 a decision based on facts in evidence, they put us all
19 in a difficult position. The crux of their case is
20 what China has done to this market and none of us have
21 any data to evaluate whether that story is true.
22 What's the pricing on China? What is the effect of
23 Chinese exports in other markets. We don't know,
24 because they're not included in the record.

25 So, it sounds to us like the U.S. industry,

1 whether they want to say it here today or not, needs
2 to bring a case against China. Why haven't they don
3 it? I don't know. The only possible explanation is
4 that they are concerned or may be concerned that they
5 cannot show injury. Well, that's not so clear, and I
6 think -- but, let's accept that for the sake of
7 discussion. If they can't show injury in a case
8 against China, how can they hope to show that the
9 injury is likely in this case for the precise reason
10 of the Chinese imports that have hit this market.
11 That is not what this process is supposed to be all
12 about and we don't think that this process -- the
13 sunset on these three countries should turn into a
14 case about China.

15 I would like to say in closing, that 12
16 years is a long time and the world has changed, the
17 fundamentals of this business have changed, and
18 Siderca and Tenaris' business has changed. These
19 orders are no longer justified. It's time to start
20 anew. If there are different problems affecting this
21 industry, they need to address them. But the answer
22 is not continuing -- the answer is not to just
23 continue the orders on these three countries.

24 With that, I conclude the testimony and
25 thank you, very much, for your help this morning and

1 afternoon.

2 CHAIRMAN PEARSON: Thank you, Mr. Herlach,
3 Mr. Spak. Let's see, in closing, post-hearing briefs,
4 statements responsive to questions, and requests of
5 the Commission, and corrections to the transcript must
6 be filed by February 20, 2007; closing of the record
7 and final release of data to the parties, March 19,
8 2007; and final comments on March 21. As a final
9 note, let me mention that scheduling issues at the
10 Commission have prompted us to tentatively schedule
11 the vote on this investigation for Thursday, April
12 19th. That might be a different date than parties had
13 expected, so I just want you to be aware of that.

14 This hearing is adjourned.

15 (Whereupon, at 4:58 p.m., the hearing in the
16 above-entitled matter was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Seamless Carbon and Alloy Steel

INVESTIGATION NOS.: 731-TA-707-709 (Second review)

HEARING DATE: February 8, 2007

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: February 8, 2007

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: Traycee Martan
Signature of Court Reporter