

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)	
CERTAIN CIRCULAR WELDED)	Investigation Nos.:
CARBON QUALITY STEEL LINE)	701-TA-455 and
PIPE FROM CHINA AND KOREA)	731-TA-1149-1150
)	(Final)

Pages: 1 through 162

Place: Washington, D.C.

Date: November 24, 2008

HERITAGE REPORTING CORPORATION

Official Reporters
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Monday,
November 24, 2008

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

The hearing commenced, pursuant to notice, at 9:33 a.m. before the Commissioners of the United States International Trade Commission, the Honorable SHARA L. ARANOFF, Chairman, presiding.

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Congressional Appearance:

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P R O C E E D I N G S

(9:33 a.m.)

CHAIRMAN ARANOFF: Good morning. On behalf of the U.S. International Trade Commission I welcome you to this hearing In Investigation Nos. 701-TA-455 and 731-TA-1149-1150 (Final) involving Certain Circular Welded Carbon Quality Steel Line Pipe From China and Korea.

The purpose of these investigations is to determine whether an industry in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of subsidized imports from China and less than fair value imports of certain circular welded carbon quality steel line pipe.

Schedules setting forth the presentation of this hearing, notices of investigation and transcript order forms are available at the public distribution table. All prepared testimony should be given to the Secretary. Please do not place testimony directly on the public distribution table.

All witnesses must be sworn in by the Secretary before presenting testimony. I understand the parties are aware of the time allocations. Any

1 questions regarding the time allocations should be
2 directed to the Secretary.

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

7 Mr. Secretary, are there any preliminary
8 matters?

9 MR. BISHOP: No, Madam Chairman.

10 CHAIRMAN ARANOFF: All right. Do we have
11 our congressional witness present?

12 MR. BISHOP: Yes, ma'am. Our congressional
13 witness this morning is the Honorable Peter J.
14 Visclosky, United States Congressman, 1st District,
15 State of Indiana.

16 CHAIRMAN ARANOFF: Good morning.

17 MR. VISCLOSKY: Thank you very much. It is
18 good to be back in the sense that unfortunately this
19 has tended obviously to be a regular habit of mine.

20 What I do want to simply begin by saying is
21 I do believe that the facts of the investigations
22 before you will warrant a finding of injury and would
23 ask that duties be imposed.

24 What I would prefer to do is simply to
25 remind each individual on the Commission that I appear

1 here not only as an individual member of Congress, but
2 as chair of the Congressional Caucus and would suggest
3 to you that despite the fact that I am the only member
4 of Congress who you will hear testimony from today, it
5 is not out of lack of interest of my colleagues,
6 particularly those on the Caucus, but just given the
7 vagaries of the congressional schedule.

8 I was there when the Caucus was formed in
9 1977 on staff. We have undergone a lot of changes.
10 We continue to do so. My good friend, Mr. English,
11 Phil English from Pennsylvania, has served as chair of
12 the Caucus. He has been vice chair of the Caucus.
13 During this coming year, he will now have his place
14 taken by Representative Tim Murphy, also from the
15 great State of Pennsylvania.

16 I do have testimony that I understand has
17 been submitted to the Commission on behalf of Mr.
18 Murphy as well if I could do that. I also understand
19 that my written testimony has also been entered into
20 the record.

21 My point today is simply to provide a
22 perspective if I could, given my history with the
23 Caucus and with the Commission. The Caucus has
24 obviously changed and continues to evolve. Management
25 of the steel industry has evolved.

1 I may have on occasion over these last 20
2 years recalled to you a conversation I had with a
3 steel executive one evening over a meal who many,
4 many, many years ago told me under the laws of physics
5 it was impossible for the electric furnace portion of
6 the domestic steel industry to make more than 30
7 percent of the steel produced in the United States of
8 America.

9 As everyone in this room understands, that
10 was an incorrect assertion and clearly was probably
11 one of the reasons that the domestic steel industry
12 over the last generation has suffered some serious
13 problems. But management today of the industry is so
14 much better, so much brighter and so much more
15 enlightened.

16 I am old enough to remember some of my
17 friends from high school, Andean High School, working
18 in the mills. They had a midnight shift. I can
19 remember some of them telling me that wasn't too bad
20 because they could sleep during their shift. That was
21 in the 1960s.

22 I can't recall a conversation with anyone
23 who is a member of a union and a mill in the 1st
24 Congressional District over the last generation
25 telling me they were sleeping on any particular shift,

1 and there again circumstances have significantly
2 changed and improved, and you see the cooperation
3 between everyone working to do their very best.

4 We have had very good economies with the
5 domestic steel industry. We have had very bad
6 economies. From 1977 to 1987, in the 1st
7 Congressional District we lost on average 200 jobs a
8 week. Now, some of that was because people might have
9 slept on a midnight shift or you had bad management or
10 you had a bad economy. A lot of it also had to do
11 with violation of international trading standards,
12 which is why we are here today.

13 None of us can control the flow of our
14 national or international economies, but we're also
15 entering a very bad period for our economy, and I
16 bring you a headline from this past Saturday's paper
17 in northwest Indiana where potentially 2,400 people
18 will be laid off from several of our mills.

19 I would not imply or suggest to you today
20 that's because of the two matters before you, but the
21 two matters before you are circumstances that can be
22 controlled.

23 As in the past, in each of these
24 circumstances there are laws in place to make sure
25 that the domestic industry, whether it be steel or

1 other, have a level playing field, that they can
2 participate in the national and world economy on a
3 fair standard, and those laws ought to be judiciously
4 and carefully enforced.

5 The Commission has not always seen it my
6 way. Many times the Commission has seen it my way
7 over these years, but I would indicate to all of you I
8 have never walked away from this room believing that
9 those who have served on the Commission have not taken
10 this very seriously, have done their very best and
11 been very careful as far as the application of the
12 law.

13 Given my belief that the facts warrant a
14 finding in these instances, that is all I can continue
15 to ask you to do because the vagaries of management
16 and labor and national economy are out of all of our
17 control, but to those things that we can control,
18 making sure the laws of this country are abided by, I
19 would ask for your continued very serious
20 consideration in this matter.

21 As always, thank you very much for the
22 opportunity to be before you today.

23 CHAIRMAN ARANOFF: Thank you very much,
24 Congressman.

25 Are there any questions for the congressman?

1 (No response.)

2 CHAIRMAN ARANOFF: Thank you for joining us
3 this morning.

4 MR. VISCLOSKY: And have a good holiday
5 season.

6 CHAIRMAN ARANOFF: Likewise.

7 Mr. Secretary, I believe we are ready to
8 proceed now with opening statements.

9 MR. BISHOP: Opening remarks on behalf of
10 Petitioners will be my Roger B. Schagrín, Schagrín
11 Associates.

12 MR. SCHAGRIN: I didn't want anyone to think
13 I was Congressman Visclosky.

14 Good morning, Chairman Aranoff and members
15 of the Commission. The domestic industry asks that
16 you pay particular attention to the following major
17 issues during today's hearing:

18 First, this industry was injured over the
19 POI from 2005 to 2007. The incredible tenfold surge
20 in imports from China from 28,000 tons to 277,000 tons
21 prevented the industry from expanding production,
22 shipments and employment during a period of booming
23 demand. Profits fell by half as a result of massive
24 Chinese underselling.

25 Second, the improvement of the industry in

1 2008 was directly tied to the massive decline in
2 Chinese imports that occurred because of the pendency
3 of this investigation. Aware of the significant
4 risks, importers of line pipe decided to change their
5 importing habits and to stop importing dumped and
6 subsidized line pipe from China upon the filing of
7 this petition.

8 The correlation on this record between the
9 domestic industry's performance when imports from
10 China were increasing and the industry's performance
11 when imports from China were decreasing strongly
12 supports an affirmative injury determination.

13 Shifting to the key threat issues in today's
14 hearing, first, it is almost painful to remind this
15 Commission how much things have changed since
16 September 30, 2008. Distributors who account for much
17 of the industry's line pipe sales have sharply cut new
18 line pipe orders because of the credit crisis and
19 their perception that falling prices would lessen
20 their inventory valuations.

21 The distributors' customers, the oil and gas
22 exploration companies, are slashing exploration
23 budgets and are themselves having difficulty financing
24 their operation.

25 Prices for oil and natural gas have

1 plummeted. Pipeline companies are finishing projects
2 for which financing and contracts were already in
3 place, but will certainly curtail future pipeline
4 expansions because of lower demand caused by the
5 recession, as well as financing problems.

6 Second, while the industry faces
7 significantly declining demand in the real and
8 imminent future, there can be no doubt in anyone's
9 mind about how massive the surge in line pipe exports
10 from China would be if this Commission were to make a
11 negative determination.

12 Now, the Chinese Government and producers
13 both vigorously participated in the countervailing and
14 antidumping duty investigations at the Department of
15 Commerce, but they have strategically decided not to
16 give questionnaire responses to this Commission and
17 not to file briefs or participate in this hearing.

18 Of course, their nonparticipation does not
19 in itself decide this case. Instead, we must ask
20 ourselves what would the Chinese have said if they had
21 participated in this hearing?

22 If the Chinese were here, they would have to
23 tell this Commission that they have millions of tons
24 of excess welded line pipe capacity. They would have
25 to tell this Commission that they are able to obtain

1 hot-rolled steel at subsidized prices that are less
2 than half the market price in the United States.

3 If they were here, they would have to tell
4 you that they have not been able to replace with
5 either increased domestic shipments nor with increased
6 export sales the three-quarters of a million tons of
7 standard pipe sales to the United States that they
8 lost because of the circular welded pipe
9 countervailing and antidumping duty orders or the
10 300,000 tons of circular welded pipe sales they lost
11 to Canada because of the Canadian orders or the loss
12 of hundreds of thousands of tons of welded pipe sales
13 to the European Union because of the EU investigation.

14 If they were here, they would have to tell
15 you that they would love to export line pipe to the
16 United States so they could obtain their 13 percent
17 VAT rebate from the Chinese Government, a rebate they
18 do not receive when they export flat-rolled steel or
19 many other welded pipe products.

20 Finally, if they were here they would have
21 to admit that they have no problem -- they would have
22 no problem -- selling hundreds of thousands of tons
23 per month into a declining U.S. market because they
24 would be willing to sell at prices that would be 40 or
25 50 percent less than U.S. producer prices.

1 In contrast to the absent Chinese witnesses
2 at today's hearing, you will hear testimony from an
3 extremely fine domestic industry panel of executives
4 and union representatives that the U.S. industry is
5 extremely vulnerable to a massive surge of imports of
6 line pipe. These imports would decimate their
7 businesses and cause them to lay off even more
8 workers.

9 This Commission and I both saw the direct
10 result of a negative determination on pipe products
11 from China in the recent past. When President Bush
12 said no to the 421 relief on circular welded pipe on
13 December 30, 2005, we saw imports from China skyrocket
14 within a two-year period from 300 to 750,000 tons. We
15 saw plants shut down. We saw hundreds of workers lose
16 their jobs even during a period of increasing demand.

17 As we prepare to enter 2009, the environment
18 is much worse for the line pipe industry. Demand will
19 be declining, and the Chinese have an even greater
20 ability and incentive to rapidly increase their
21 exports to the United States.

22 On behalf of this industry, I ask you to
23 make sure we do not allow history to repeat itself.
24 Based on this record, I ask you to make an affirmative
25 determination of injury or threat of injury by reason

1 of subsidized and dumped line pipe imports from China.

2 Thank you.

3 CHAIRMAN ARANOFF: Thank you, Mr. Schagrin.

4 Mr. Secretary, can you please call the first
5 panel?

6 MR. BISHOP: Would those in support of the
7 imposition of antidumping and countervailing duty
8 orders please come forward and be seated?

9 Madam Chairman, all witnesses have been
10 sworn.

11 (Witnesses sworn.)

12 CHAIRMAN ARANOFF: With so many able counsel
13 present I'm not quite sure who's running this large
14 combined panel this morning, but, whoever is in
15 charge, please proceed when you're ready.

16 MR. HECHT: Thank you. I am Jim Hecht
17 representing the United States Steel Corporation, and
18 we would like to begin our presentation this morning
19 with slides addressing some of the most important
20 points in these investigations.

21 Slide 1 lists four key points for you to
22 keep in mind. First, the domestic industry had a
23 lower operating income in 2007 than in 2005, even
24 though U.S. consumption of welded line pipe grew by
25 almost 60 percent during that time period. This

1 extraordinary result is clearly attributable to a
2 surge in unfairly traded Chinese imports.

3 Second, the domestic industry's improved
4 performance during the first three quarters of 2008
5 coincided with a significant decline in Chinese
6 imports in response to the petition.

7 Third, the current global economic crisis
8 has left domestic producers highly vulnerable to
9 material injury.

10 Fourth, Chinese imports clearly threaten the
11 domestic industry with additional material injury.

12 Now let's take a look at the data. Here you
13 see the tremendous increase in consumption from 2005
14 to 2007. This is a very cyclical business, so
15 domestic producers needed to take full advantage of
16 this strong demand. Unfortunately, they were unable
17 to do so.

18 And here you can see why. Dumped and
19 subsidized imports increased by over 900 percent,
20 rising from 27,000 tons in 2005 to over 277,000 tons
21 in 2007. The Chinese also gained a large share of the
22 U.S. market. As you can see here, in 2005 Chinese
23 welded line pipe had a relatively small presence, but
24 by 2007 China held over one-fifth of the total market.

25 Here you see that over the same period the

1 market share held by the domestic industry fell by
2 seven percentage points. The remarkable surge in
3 Chinese imports, combined with the falling market
4 share of U.S. producers, plainly show that the volume
5 of Chinese imports was significant.

6 The evidence on price effects is
7 overwhelming. Your staff report shows underselling in
8 56 out of 56 pricing comparisons with an average
9 underselling margin of over 30 percent. It also shows
10 that U.S. producers were unable to raise prices in
11 2007 despite rising costs.

12 Here we see the impact of those low-priced
13 Chinese imports. Because of those imports, domestic
14 producers found themselves trapped in a cost/price
15 squeeze during 2007. The domestic industry's costs
16 were rising, but U.S. mills were unable to pass along
17 those prices to their customers. As a result, the
18 industry's operating income fell.

19 And here you can see that the industry's
20 operating margin also plummeted, falling from 16.3
21 percent in 2005 to 8.9 percent in 2007. Here you can
22 see the effect on Chinese imports after the petitions
23 were filed on April 3. Chinese imports in the second
24 and third quarters of 2008 were down over 50 percent
25 from the same period in 2007.

1 Because this change in Chinese behavior was
2 related to the pendency of the investigations, the
3 Commission should give less weight to interim 2008
4 data. Indeed, the improvement of the industry as
5 Chinese imports receded is evidence of the injury that
6 they have caused.

7 It is clear under this record that Chinese
8 imports were a unique cause of material injury for
9 purposes of Bratsk. There is no question domestic
10 producers would have benefitted from the absence of
11 Chinese imports. Those imports were priced much lower
12 than imports from other countries.

13 The Chinese industry is much larger than
14 other potential import sources, and the operating
15 performance of the domestic industry improved
16 significantly during interim 2008 as Chinese imports
17 declined.

18 In terms of market conditions going forward,
19 it is hard to exaggerate the significance of the
20 changes we are seeing. As everyone is no doubt aware,
21 we are heading into a global economic crisis that,
22 according to many observers, is the worst since the
23 Great Depression.

24 As you can see here, the Dow Jones average
25 is down almost 3,000 points from its level at the end

1 of September and is down some 6,000 points from its
2 peak last October. The crisis is having a dramatic
3 impact on prices for crude oil and natural gas, the
4 two primary drivers for welded line pipe demand.

5 As you can see here, oil prices have fallen
6 almost \$100 a barrel since July. I would also point
7 out that oil prices are down close to \$70 a barrel
8 from their levels when the Commission made its
9 preliminary determinations in May.

10 Here you see that natural gas prices have
11 seen a similar decline. Once again, the price is down
12 about \$5 from where it was during the preliminary
13 phase of these investigations. Furthermore, prices
14 then were going up. Now the price is in the midst of
15 a severe decline.

16 The economic crisis has already caused a
17 dramatic decline in the prices of oil and gas. It has
18 major implications for welded line pipe demand. Just
19 last week, the Baker-Hughes U.S. rig count fell by 51
20 rigs.

21 As we discussed in our brief, numerous
22 companies have announced plans to idle rigs or cut
23 their drilling budgets. A few of those examples can
24 be seen here. As you will hear in more detail from
25 the company witnesses, the strong market conditions of

1 the last few years appear to be at an end.

2 The economic crisis obviously represents a
3 critical background to the Commission's analysis of
4 threat. In considering the threat issue, it is
5 particularly important that the Commission apply
6 adverse inferences to China.

7 This case presents one of the most vivid
8 examples of noncooperation we have ever seen. The
9 staff sent over 65 foreign producer questionnaires,
10 but received only one response. As a result, you have
11 virtually no questionnaire data regarding China's
12 capacity, its production, its inventories, its
13 exports, its plans to do new capacity; in short, the
14 key pieces of evidence in a threat investigation.

15 You should infer that the Chinese producers
16 refuse to provide these data because they knew such
17 data would be harmful to their cause here. If you
18 fail to do so, you will clearly be rewarding Chinese
19 producers for their intentional noncooperation, and
20 you will find it more difficult to persuade foreign
21 producers to provide information in the future.

22 Despite the absence of questionnaire data,
23 the record leaves no doubt that Chinese imports
24 present an enormous threat of material injury. Here
25 you can see that China's welded pipe production dwarfs

1 that of any other country. Even a small percentage of
2 this production could flood the U.S. welded line pipe
3 market.

4 Here you can see that China's welded pipe
5 production grew by some six million tons from 2004 to
6 2006, and in every year it far exceeded U.S.
7 production.

8 Our brief also shows that every statutory
9 threat factor supports an affirmative determination.
10 Here you see a few of the key points. Chinese
11 producers benefit from massive subsidies, including
12 export subsidies. In addition, Chinese mills are
13 building millions of tons of new capacity. They have
14 already shown their ability to quickly gain market
15 share by underselling the domestic like product.

16 They have high inventories, and they face
17 numerous orders on welded standard pipe that will
18 encourage product shifting in the absence of relief.
19 These factors all show that the threat of material
20 injury from Chinese imports is significant.

21 In addition, it should be remembered that
22 the global economic crisis is also hurting China.
23 Here you can see what's happened to the largest
24 Chinese --

25 (Electronic interference.)

1 MR. HECHT: Already we are seeing signs that
2 China is --

3 (Electronic interference.)

4 MR. HECHT: In the absence of trade relief,
5 Chinese producers will once again flood this market
6 with dumped and subsidized imports. Given that demand
7 is already falling, the consequences of such an import
8 surge would be devastating.

9 In short, the threat from China is
10 extraordinary. As we have previously shown, Chinese
11 imports hurt domestic mills even when demand was
12 strong. Given that we now are in the midst of a
13 severe economic crisis and that China has strong
14 incentives to dramatically increase exports, reopening
15 this market to dumped and subsidized Chinese imports
16 could do irrevocable harm to U.S. producers.

17 Accordingly, the Commission should find that
18 Chinese imports threaten the domestic industry with
19 material injury.

20 I now turn to our company witnesses.

21 MR. ALVARADO: Good morning. I'm Joe
22 Alvarado, President of United States Steel Tubular
23 Products, and I'm pleased to have the opportunity to
24 share my views based on a long history with this
25 industry and this market.

1 I previously served as President and Chief
2 Operating Officer of Lone Star Technologies, one of
3 the largest producers of welded pipe in the United
4 States. Since U.S. Steel's acquisition of Lone Star
5 in 2007, I've headed up U.S. Steel's expanded tubular
6 operations.

7 U.S. Steel Tubular is the largest producer
8 of energy tubular products in North America with 2.8
9 million tons of capacity and 12 manufacturing plants
10 in six states. From my experience in this business, I
11 can tell you that unfair Chinese imports have had an
12 enormously harmful impact on our line pipe operations
13 over the past several years and threaten catastrophic
14 injury if nothing is done to address this situation.

15 U.S. Steel spent \$2.1 billion to acquire
16 Lone Star. As a company, U.S. Steel Tubular Products
17 is deeply committed to and heavily dependent upon the
18 energy tubular markets. Welded line pipe, which we
19 produce both in east Texas in the Houston area, as
20 well as in McKeesport, Pennsylvania, is a crucial part
21 of our product mix.

22 It is essential that we maintain strong
23 sales of these products if we are to optimize total
24 production, maintain long-term profitability and
25 preserve good, high paying jobs. Indeed, the welded

1 line pipe that is subject to this investigation
2 accounted for over a quarter of all production at our
3 welded pipe facilities in 2007. We need fair market
4 competition for this product.

5 Unfortunately, we've had anything but fair
6 competition. From 2005 to 2007, dumped and subsidized
7 imports of welded line pipe from China increased by
8 over 900 percent. In that period, China's share of
9 the U.S. market went from three percent to over 20
10 percent, one of the most dramatic surges in market
11 share we have ever witnessed in such a short period.

12 Chinese producers did not gain this position
13 with better product or better service or more
14 efficient operations. They got it by breaking the
15 rules, using government subsidies and other unfair
16 practices to offer their goods at prices no American
17 company could hope to match.

18 The Commerce Department recently confirmed
19 that Chinese producers are being subsidized at margins
20 of 35 to 40 percent. With that type of government
21 backing, it is no wonder that, according to your own
22 data, Chinese welded line pipe has been underselling
23 U.S. producers by an average of over 30 percent. For
24 most of this period, that worked out to a difference
25 of roughly \$300 per ton.

1 These are simply incredible margins of
2 underselling and are directly responsible for the
3 explosive growth of Chinese market penetration. It is
4 difficult to exaggerate the type of impact these
5 practices have in the marketplace.

6 The flood of unfairly traded imports from
7 China came during one of the strongest markets we've
8 ever seen. From 2005 to 2007, U.S. consumption of
9 welded line pipe increased by almost 60 percent, but
10 because of Chinese underselling in 2007 we couldn't
11 raise prices to keep pace with costs.

12 I understand that your data shows that the
13 domestic industry's unit costs rose by over 17 percent
14 in 2007, while prices improved by only four percent.
15 As a result, profits plummeted.

16 Your data shows that from 2005 to 2007, the
17 industry's operating income fell by over \$24 million
18 and its operating margin was almost cut in half.
19 Please consider the significance of those facts.
20 During one of the best markets we've ever seen or may
21 ever see, the industry's performance actually
22 weakened.

23 This is a cyclical business. When oil and
24 gas prices are strong, demand soars. But demand can
25 dry up just as quickly. Because of unfairly traded

1 Chinese imports, we lost much of the opportunity we
2 had from 2005 to 2007. Our performance has improved
3 in 2008, but that is only after we filed these cases
4 and Chinese imports were reduced.

5 And now it looks like the strong market
6 opportunities we've witnessed, but could not fully
7 realize, may be fading away as the current economic
8 crisis spreads throughout the global economy.

9 I must say that this is an exasperating
10 situation for the men and women that work in this
11 industry and that have done everything right. The
12 profits we lost because of the import surge and the
13 investments and new jobs they could have supported are
14 gone forever.

15 Ironically, as we sit here today and
16 petition our government for relief, our workers and
17 companies know that they will have a stiff challenge
18 in front of them in any event trying to prosper in an
19 exceedingly difficult economic environment.

20 Indeed, with crude oil prices down almost
21 \$100 a barrel since the summer, natural gas prices
22 down over 50 percent and daily reports of drilling
23 companies reducing their budgets, we will face major
24 obstacles moving forward.

25 To put it simply, we have allowed foreign

1 companies not playing by the rules to capture the
2 gains in times of plenty, and now we are left to fight
3 for our future in a declining market. Asking the men
4 and women that work in this industry to face the
5 additional burden of continued unfair trade in these
6 circumstances would be unimaginable.

7 As we look forward, the threat from Chinese
8 imports cannot be credibly denied by anyone familiar
9 with this market or with the Chinese welded pipe
10 industry. That industry is huge, with over 22 million
11 tons of total production in 2006, an increase of more
12 than 50 percent from just two years earlier.

13 Our briefs and submissions document Chinese
14 plans to add millions of additional tons of capacity
15 in the future. Please ask yourself a simple question:
16 If Chinese producers were able to fundamentally alter
17 the dynamic of this market in one of the strongest
18 demand periods ever, what will they do as we enter a
19 global financial and industrial crisis?

20 What will they do as they seek markets
21 drawing up around the world and as their government
22 gives every indication that it intends to export its
23 way out of this meltdown?

24 The answers are again not in dispute by
25 anyone seriously observing these markets. If we allow

1 it, Chinese product will surge back into the market in
2 even higher volumes. The results could very well be
3 catastrophic, and we will be at risk for dramatic
4 declines in sales, pricing and employment.

5 I urge you not to let this happen and to
6 make an affirmative determination in this case. Thank
7 you very much for your attention.

8 MR. THOMPSON: Good morning. I'm George
9 Thompson, General Manager of Commercial for United
10 States Steel Tubular Products. Thank you for the
11 opportunity to testify this morning.

12 I'd like to focus on five critical points
13 this morning. First, to fully appreciate the impact
14 of Chinese imports on this market you should pay
15 particular attention to what's been happening with
16 distributors.

17 These purchasers are usually looking to
18 obtain commodity grade steel for stock. They buy pipe
19 made to API standards where the products and specs are
20 interchangeable, and there is no question that price
21 is the overwhelming factor in their decision making.
22 That is precisely where Chinese imports have done the
23 most damage.

24 We cannot avoid this harm by making only
25 specialty grade products or looking to compete only

1 for project business as end users. There simply isn't
2 enough projects or specialty grade business to fill
3 our mills, which depend upon a product mix that
4 includes a large amount of commodity grade pipe sold
5 to distributors as described.

6 Second, domestic producers will benefit
7 significantly from the absence of unfairly traded
8 Chinese imports even if we are still competing against
9 imports from other countries. We have no problem with
10 fairly traded imports and have faced such competition
11 for decades.

12 The fact is, however, that no one can
13 successfully compete against the types of behavior we
14 have seen from Chinese producers. China's prices are
15 extraordinarily low, often hundreds of dollars per ton
16 below other import sources. Furthermore, no other
17 country can come close to matching China's enormous
18 capacity.

19 China alone accounts for almost 40 percent
20 of all the welded pipe production in the world, and
21 its total production of welded pipe is seven times
22 that of the United States. Even a small percentage of
23 this production can have devastating consequences in
24 this market.

25 Third, the improvement in the domestic

1 industry's performance during 2008 is due in
2 significant part to the reduction in Chinese imports.
3 Demand was strong for most of this year, but it was
4 just as strong during 2007. We still had to compete
5 with imports from other countries during 2008, but, as
6 just explained, the impact of imports from other
7 countries pales in comparison to the impact of unfair
8 Chinese imports.

9 If Chinese imports had continued to surge
10 into this market as they did during 2007, it is highly
11 doubtful we could have obtained the price increases we
12 needed just to cover higher costs. So you should
13 completely reject the notion that our improved
14 performance means that we no longer need trade relief.
15 If anything, the industry's recent improvement proves
16 the value of such relief.

17 Fourth, we face the threat of additional
18 material injury in the very near future. Our numbers
19 indicate that China is in the midst of a massive
20 effort to build at least three million tons of new
21 welded pipe capacity. Much of this capacity will be
22 devoted to exports.

23 In 2007, China sent over 40 percent of its
24 welded line exports to the United States. This fact
25 is indicative of just how many of the new export

1 capacity that they're adding will likely be headed to
2 this market.

3 Meanwhile, the United States, Canada,
4 Australia and the European Union have all either
5 imposed trade relief or launched trade investigations
6 regarding Chinese exports of welded standard pipe, a
7 fact that will encourage Chinese mills to shift to
8 welded line pipe. We are also seeing signs that
9 Chinese manufacturers and the Chinese Government
10 believe that China should export its way out of the
11 problems facing the global economy.

12 For all of these reasons, I have no doubt
13 that in the absence of trade relief and in the face of
14 oncoming market contraction we will soon face an even
15 larger surge of imports than the one that has already
16 occurred and will cause significantly more damage than
17 it has in the past.

18 Finally, I'd like to make an observation
19 about that market contraction. Current economic
20 crisis means that we will be even less able to
21 withstand a new surge of unfairly traded imports than
22 we were before these petitions were filed.

23 Oil and gas prices have plummeted and may
24 fall even further. Almost every day we hear new
25 reports of rigs being idled, projects being postponed

1 or drilling budgets being cut. These events will
2 cause demand of welded line pipe to fall and in all
3 likelihood will cause demand to fall dramatically.

4 Considering the Chinese imports caused our
5 operating income to plunge despite a 60 percent
6 increase in demand from 2005 to 2007, I am very
7 worried what will happen if we face an even bigger
8 surge of unfair trade in the context of falling
9 demand.

10 I urge you to prevent such a scenario by
11 supporting trade relief with regard to Chinese
12 imports. Thank you for your time and consideration.

13 MR. CURA: Good morning. My name is German
14 Cura. I am the President and CEO of Maverick Tube
15 Corporation and the Managing Director of Tenaris North
16 America. In my capacity as president I manage all of
17 Maverick's operation in the United States.

18 In all my years in the steel tubular product
19 industry, I have never seen a line pipe market like
20 this one. As you know, demand for line pipe is
21 derived from the level of drilling activity for oil
22 and gas. From 2005 to 2007, we saw a substantial
23 increase in oil and natural gas prices. As a result,
24 drilling activity increased significantly for both.

25 To keep pace with the increased drilling

1 activity, line pipe demand also increased. With the
2 advent of the financial crisis just a few short months
3 ago, the world has changed. We have since seen
4 dramatic decline in both oil and natural gas prices.
5 Oil prices have declined from over \$140 a barrel to
6 just under \$50, and natural gas prices in July have
7 been cut nearly in half.

8 A decline of this magnitude is causing
9 drilling activity to fall off. Some analysts predict
10 a 20 to 30 percent decline in drilling through next
11 year and into 2010. Last week alone, the rig count
12 has come down by 50 rigs.

13 The subsequent crash in oil and natural gas
14 prices, coupled with the credit crunch, is causing
15 energy production companies to reduce their capital
16 expenditure budgets for 2009. Cuts in capital
17 expenditure budgets mean that these companies are not
18 developing new fields, which translates into
19 significant declines in line pipe demand.

20 As you will hear, Maverick has already begun
21 to feel the effects of the decline. We have laid off
22 the second shift at our town's welded pipe facility.
23 Planned drilling and development on pipeline projects
24 have been delayed, causing line pipe order volumes to
25 decline. In this state, the industry cannot afford

1 another flood of unfairly traded, low-priced Chinese
2 imports.

3 Our suppliers have also felt the effects of
4 the declining line pipe demand. Logically, if we
5 produce less we purchase less hot-rolled, causing our
6 domestic hot-rolled suppliers to cut their production,
7 which harms all of our employees.

8 If the U.S. industry loses an order to China
9 our workers lose an order to China. Not surprisingly,
10 our suppliers have a keen interest in this case, and
11 some are even present in the gallery today.

12 As the Commission is aware from its past
13 cases, the Chinese have flooded tubular markets around
14 the world with their pipes. Chinese exports of all
15 tubular products have increased substantially over the
16 interim period.

17 As the manager of Tenaris North America, I
18 am very aware of the effect the surge of Chinese pipe
19 shipments have had on markets around the world.
20 Tenaris is a global player and competes against
21 Chinese pipe producers globally. There have been
22 trade cases against Chinese OCTG and standard pipe in
23 Canada, and there's an active case against Chinese
24 welded pipe in Europe as well, which we expect an
25 outcome in the coming days.

1 If it were not for trade remedy proceedings,
2 Chinese pipe would injure not only the U.S. industry,
3 but would also cause extensive damage to industries
4 around the world.

5 The Chinese pipe industry represents an
6 impressive amount of tubular production capacity and
7 is growing. The staff report reflects the massive
8 pattern of growth in Chinese welded production
9 capacity. This capacity expansion is far in excess of
10 Chinese consumption, forcing Chinese producers to
11 export larger and growing quantities of pipe.

12 As we have seen, the Chinese pattern is to
13 export anywhere in the world where there are not trade
14 remedy proceedings. We see this here in the United
15 States with the filing of the standard pipe case.

16 Where the Department of Commerce found
17 significant antidumping and countervailing margins,
18 the Chinese imports of standard pipe declined
19 substantially. Likewise, with the filing of this case
20 Chinese imports of line pipe declined.

21 At the same time, however, OCTG imports from
22 China have more than doubled since last year. This
23 increase in OCTG is driven by the fact that the
24 Chinese had exported over 60 percent of their OCTG
25 production.

1 In fact, as we show in our prehearing brief,
2 Chinese producers want to continue to sell line pipe
3 in the United States and are eager to re-enter the
4 market. The only thing that stands between the new
5 flood of line pipe imports from China and further
6 material injury is this investigation.

7 The Chinese Government is responsible for
8 this surge of tubular shipments through the use of
9 subsidies and export taxes and rebates. In the
10 current global economic crisis, the Chinese Government
11 has shown no intention of tempering the wave of
12 tubular shipments.

13 Just the opposite. The Chinese Government
14 has eliminated its export tax on virtually all steel
15 products and grant a rebate for exports of line pipe
16 on OCTG. Clearly the Chinese Government intends to do
17 everything it can to maintain or increase current
18 production levels and export as much as it can.

19 Looking towards 2009, I fear that unless
20 unfairly traded imports from China are prevented from
21 surging back into the United States, our financial
22 performance in 2009 will be significantly worse than
23 our performance in 2007 when the Commission found a
24 reasonable indication of material injury in the
25 preliminary determination.

1 Given these facts, I believe that the
2 Commission must find that imports from China have
3 injured our industry and are also threatening us with
4 imminent material injury if left unchecked.

5 Thank you for your time, and I would be
6 happy to answer any questions that the Commission may
7 have.

8 MR. BALKENENDE: Good morning. My name is
9 Roland Balkenende. I'm the President and General
10 Manager of Tenaris Global Services USA, the sales arm
11 for Maverick Tube Corporation. I have over 25 years
12 of experience in the line pipe industry, and in my
13 capacity as president I manage all of Maverick's
14 commercial operations in the United States.

15 When I came before the Commission seven
16 months ago, I spoke about the impact that imports from
17 China were having on Maverick, even during a time of
18 rapidly rising demand for line pipe. At the time,
19 hot-rolled and scrap prices were skyrocketing. At the
20 same time that our raw material costs were soaring,
21 Chinese imports surged into the market.

22 We were caught in a classic cost/price
23 squeeze. We simply could not raise our prices
24 sufficiently to cover soaring costs because the market
25 was saturated with low-priced Chinese imports. In

1 what should have been a golden age for domestic
2 producers of welded line pipe, we lost market share,
3 and our profits declined significantly.

4 The flood of low-priced imports from China
5 had a particularly devastating impact on our Counce,
6 Tennessee, facility, which only produces line pipe in
7 the four to eight inch size range. This facility
8 competed directly with imports from China, which are
9 also concentrated in commodity grades and the eight
10 inch and under size ranges.

11 The filing of this case caused a significant
12 decline in Chinese imports, and we were then able to
13 increase prices sufficiently to recover our raw
14 material costs. Due to the filing of the petition, we
15 were able to increase our prices and increase our
16 shipments for the first time since 2007. As a result,
17 we were able to reinstate the second shift at our
18 Counce facility.

19 The significant difference in our
20 performance before and after the Chinese left the
21 market shows that the massive increase in Chinese line
22 pipe was directly responsible for the material injury
23 that we suffered and will continue to suffer if an
24 order is not imposed. This confirms the findings of
25 the Commission in the earlier determination in this

1 case.

2 These improvements did not last long though,
3 as the economy and oil and natural gas prices have
4 gone into a tailspin. We have very few line pipe
5 orders booked for 2009. Many of our line pipe
6 customers, unable to obtain financing because of the
7 credit crunch and decreased drilling, are canceling or
8 delaying line pipe orders. This has taken away our
9 opportunity to bid on new business.

10 In the wake of a deep recession and credit
11 crunch, demand for line pipe is fading. Maverick's
12 order books are thin. Sadly, the sharp downturn in
13 market conditions has forced us to once again announce
14 that we are cutting the second shift at our Counce
15 facility.

16 This will have a devastating impact on the
17 community where this facility is located. The Counce
18 facility is located in an especially rural part of
19 Tennessee where there are few alternative means of
20 decent paying employment.

21 As market conditions continue to
22 deteriorate, we are in the unfortunate position of
23 evaluating whether further production cuts, layoffs or
24 closures may be necessary. If duties are not put on
25 dumped and subsidized Chinese line pipe, they will

1 rapidly surge back into the market. The harm that
2 Maverick will suffer will be even more substantial
3 than the harm suffered in the previous three years.

4 On behalf of Maverick and its employees, I
5 urge the Commission to find that imports from China
6 have injured our industry and also threaten us with
7 material injury.

8 Thank you for your time.

9 MS. AVRIL: Good morning, Chairman Aranoff
10 and members of the Commission. For the record, my
11 name is Vicki Avril, and I'm the President and CEO of
12 IPSCO Tubulars, Inc. and NS Group.

13 I'm joined today by Scott Barnes, our Vice
14 President and Chief Commercial Officer. Scott has 28
15 years of experience in the pipe industry.

16 As for my background, I obtained an MBA from
17 the University of Chicago --

18 CHAIRMAN ARANOFF: Ms. Avril, could we ask
19 you to come closer to your microphone? They're not
20 that sensitive, and some folks are having trouble
21 hearing you.

22 MS. AVRIL: Okay.

23 CHAIRMAN ARANOFF: Thank you.

24 MS. AVRIL: Is that better?

25 CHAIRMAN ARANOFF: Yes.

1 MS. AVRIL: Okay. As for my background, I
2 obtained an MBA from the University of Chicago and
3 spent 23 years with Inland Steel Industry and
4 completed my career there as the company's chief
5 financial officer.

6 After four years away from the steel
7 industry, I returned to IPSCO, Inc. as the company's
8 CFO and later was appointed vice president of the
9 Tubular Division. In June 2008, after the sale by
10 SSAB of IPSCO Tubular's assets to TMK and Everest, I
11 began my position as President and CEO of the two
12 principal former U.S. operating units of IPSCO's
13 Tubular Division.

14 We produce API line pipe in a product size
15 range from two and three-eighths to 16 inch OD. We
16 began production of these products in Comanche, Iowa,
17 in 1991; Blytheville, Arkansas, in 1998; and Wilder,
18 Kentucky, in December 2006.

19 Line pipe is an extremely important product
20 for IPSCO Tubular, and we market our ability to supply
21 our distributors with a full size and gauge range
22 since our acquisition of NS in 2006. Almost all our
23 sales of these products are to distributors.

24 IPSCO has a history of being a top quality
25 and cost competitive producer. We have an extremely

1 productive workforce and have always strived to
2 produce the highest quality products and keep costs
3 under control through high utilization rates and yield
4 maximization.

5 To this end, we made major capital
6 expenditure investments in our acquisition of the
7 existing Comanche, Iowa, facility. We believe that
8 the mill installed at our greenfield Blytheville,
9 Arkansas, plant is the fastest, most effective ERW
10 production facility in its size range in the world.

11 When we acquired both welded and seamless
12 production facilities through our acquisition of the
13 NSA Group in December 2006, we publicly stated that we
14 intended to raise capacity utilization at the Wilder,
15 Kentucky, facility far above the 50 percent
16 utilization rates that Newport Steel was running.

17 We reintroduced standard and line pipe
18 production on those mills and began making capital
19 investments to support the product line. In fact, in
20 2007 and 2008 we made a number of smaller capital
21 investments in and under the \$2 million range and
22 increased utilization rates significantly by adding
23 standard and line pipe production at the Wilder,
24 Kentucky, facility.

25 However, the competitive pressures of the

1 unfairly traded line pipe imports and consequent
2 deterioration of financial returns in our line pipe
3 business prevented us from making some of the very
4 substantial capital investments needed in Wilder in
5 the range of \$8 to \$15 million. Based on the current
6 financial crisis, I have postponed indefinitely all
7 ERW capital projects.

8 As I mentioned previously, virtually all our
9 API line pipe sales are to distributors who in turn
10 sell to exploration and production companies. I am
11 personally aware that at the present time our
12 distributors are acutely attuned to the present
13 devaluation of their inventory caused by declining
14 line pipe prices and that these distributors are very
15 focused on reducing their inventory levels.

16 I am also well aware that both our
17 distributors and distributors' customers in the
18 energy, exploration and production business are having
19 a very difficult time obtaining credit to finance
20 their operations.

21 At the present time, our company is
22 evaluating order intake rates in comparison to the
23 present production schedules and determining what
24 level of production curtailments to take. We are
25 ramping down production as we speak and have announced

1 production cutbacks and layoffs at our facilities in
2 November and December.

3 These decisions are based on market
4 conditions which already reflect the dramatically
5 reduced import levels from China. If in the midst of
6 these market conditions large volumes of unfairly
7 traded imports from China were allowed to return to
8 the U.S. marketplace, this would have disastrous
9 consequences on IPSCO Tubulars and our valued
10 employees.

11 These are the near term consequences of a
12 negative determination of this case. Over the medium
13 and longer term, large volumes of unfairly traded
14 imports would force us to starve different production
15 facilities of capital investments necessary to remain
16 competitive producers.

17 Our pipe making facilities are globally
18 competitive, and while some countries have lower wage
19 rates compared to the U.S., our workforce is
20 productive and the cost of transporting pipe from
21 overseas is more costly than the labor costs contained
22 in our product.

23 We are prepared to compete for business on
24 the basis of price, quality, service and product
25 offerings. There are many countries that import line

1 pipe into the U.S. and follow the rules of the market,
2 and we welcome those competitors. What we are
3 objecting to today is unfairly traded imports from
4 China.

5 Therefore, on behalf of IPSCO Tubulars and
6 our employees, I ask that this Commission make an
7 affirmative determination. Thank you.

8 MR. DAVILA: Good morning, Chairman Aranoff
9 and members of the Commission. For the record, my
10 name is Raymond Davila, and I'm Vice President of
11 Sales for Tex-Tube Company. I have been in the pipe
12 and tube industry for 12 years, and I have been with
13 Tex-Tube since 2002.

14 Tex-Tube started business in 1945 and has
15 been in the same location in Houston since that time.
16 We have had several ownership changes in our more than
17 50 year history, the most recent being when the
18 Villacero family purchased the company from Armco
19 Steel in late 1994.

20 Welded line pipe has always been our
21 principal product since the inception of the company.
22 It accounts for approximately two-thirds of our
23 production. We also produce standard pipe and OCTG.
24 However, our finishing facilities limit production in
25 the OCTG market.

1 Obviously our location in Houston gives us
2 the advantage of wonderful access to the large line
3 pipe market in the Gulf Coast and southwest where
4 there's a lot of drilling for oil and natural gas.
5 Unfortunately, Houston is also the largest import port
6 for welded line pipe in the United States.

7 While we have been in the business for 50
8 years, Tex-Tube has not stood still in terms of
9 reinvestment in equipment. In late 2006 and early
10 2007, we embarked on one of the larger equipment
11 upgrades in our history, spending over \$6 million to
12 install new cutoff equipment, as well as new
13 hydrostatic testing and ultrasonic testing for our
14 products.

15 In part, this was a response to our
16 perception that demand was going to improve and we
17 could increase total mill production by expanding our
18 finishing capabilities. It was also in response to
19 tighter API specifications which require better
20 testing equipment on our part.

21 As part of the equipment installation, our
22 mill was shut down from late December 2006 through the
23 end of April of 2007. Because most of our product is
24 shipped out of inventory, we tried to build up our
25 inventory, as well as inventory held by our customers,

1 in advance of the shutdown.

2 Of course, our owners want us to obtain a
3 significant return on this new investment. In 2007,
4 we fell far short of those projections.
5 Unfortunately, after a successful restart of the mill
6 in early May 2007, we found that the demand for our
7 line pipe products was not strong.

8 In fact, while overall demand for line pipe
9 in our size range was strong, distributors had just
10 been filling up their yards with massive amounts of
11 imports from China. This forced us to struggle
12 through 2007 to build back production to our normal 20
13 hours per day/five day per week work schedule.

14 For several months in 2007, we had to cut
15 back production again after finishing our ramp up.
16 This was not a desirable situation. In my
17 conversations with Rusty Fisher, who is representing
18 our sales to these distributors, I was constantly told
19 that we must lower prices or there would be no sales.

20 After I appeared here in the conference in
21 April, our business definitely improved. We were able
22 to get price increases through, and our sales volumes
23 increased. There's little doubt in my mind that this
24 was in large part caused by the Chinese disappearance
25 in the market.

1 Now everything has changed. Our backlog has
2 gone from two months to two weeks. If this Commission
3 lets the Chinese back into the market at their
4 ridiculous prices a difficult environment will become
5 an impossible environment for the Tex-Tube company and
6 its employees.

7 For that reason, we ask you to make an
8 affirmative determination. Thank you for the
9 opportunity to testify here this morning.

10 MR. MAHONEY: Good morning, Chairman Aranoff
11 and members of the Commission. My name is Bob
12 Mahoney, and I am President of the Tubular Products
13 Division of Northwest Pipe Company. I have been with
14 the company for 16 years and have been president of
15 the Tubular Products Group for 18 months.

16 From 2003 to 2007, our Tubular Division
17 business fell by nearly half as we shuttered plants or
18 curtailed operations in Portland, Oregon; Bossier
19 City, Louisiana; and Houston, Texas, primarily because
20 of imports of standard pipe, line pipe, fence tubing
21 and mechanical tubing. We wound up producing line
22 pipe only at our Atchison, Kansas, facility, where it
23 is the largest product for this plant.

24 Tubular Synergy Group markets our line pipe.
25 Rusty Fisher, who handled the same responsibilities

1 under an agreement we have at Lone Star, has extensive
2 line pipe marketing experience. This allows Northwest
3 Pipe to concentrate our efforts on production
4 efficiencies, quality and cost.

5 I would like to give you an executive's
6 strategic overview of how we see unfair import
7 competition affecting our company and our employees.
8 As mentioned before, in product after product we saw
9 Chinese imports take market share. We could not
10 operate facilities and achieve the type of reasonable
11 profit margins or return on investments that investors
12 will accept.

13 For example, we used to be a significant
14 regional producer of mechanical and fence tubing
15 because of an acquisition in 1997. By 2006, we had
16 discontinued these products.

17 After decisions by the Department of
18 Commerce and the Commission earlier this year that
19 imports from four countries were traded unfairly, we
20 were able to begin producing light-walled rectangular
21 tubing again in our Houston facility on two mills and
22 recall approximately 25 workers.

23 Even though demand for this product is down,
24 stopping unfair trade has given us a chance to compete
25 in a fair marketplace. The same has been true of our

1 standard pipe operations, including A-53 made at our
2 Atchison, Kansas, facility, which were assisted by the
3 recent affirmative determinations on circular welded
4 steel pipe against China.

5 Now, new surges of imports from China into a
6 declining market threaten our line pipe operations.
7 Over the past two months, market demand has declined
8 substantially. Ultimately our operating levels are
9 determined by demand.

10 I cannot imagine what would happen to the
11 line pipe market if we see the return of hundreds of
12 thousands of tons of unfairly traded line pipe from
13 China to the marketplace in 2009. We are committed to
14 manufacturing in the United States and proudly offer
15 good paying, family wage jobs.

16 In summary, providing relief to Northwest
17 Pipe and its valued employees from the injury and
18 threat of injury by reason of these unfairly traded
19 imports from China is critical to the future of our
20 Tubular Products Division and our employees.

21 Thank you.

22 MR. FISHER: Good morning, Chairman Aranoff
23 and members of the Commission. My name is Rusty
24 Fisher, and I'm the Vice President of Line Pipe Sales
25 at Tubular Synergy Group in Addison, Texas. I have

1 been in the pipe industry for 26 years.

2 I worked for Tex-Tube from 1982 until 1995,
3 becoming General Sales Manager. In 1995, I left
4 Tex-Tube for Lone Star Steel. As Lone Star and
5 Tex-Tube agreed that Lone Star would take charge of
6 all line pipe sales for both companies, while Tex-Tube
7 handled all their standard pipe sales, I was thus in
8 charge of line pipe sales for both Lone Star and
9 Tex-Tube.

10 Shortly after U.S. Steel acquired Lone Star
11 in 2007, I left to join former Lone Star executives in
12 forming Tubular Synergy Group. At Tubular Synergy
13 Group, we are the exclusive representative for
14 Northwest Pipe and Tex-Tube line pipe sales, which
15 gives us size coverage from three and a half inches to
16 16 inches OD.

17 First, I would like to describe the line
18 pipe market in 16 inch and under. For eight inch and
19 under, which is the Tex-Tube size range, almost all of
20 the welded line pipe is used to connect the oil and
21 gas brought from the wellhead to a gathering system
22 which helps transport oil or gas to a processing plant
23 or to a larger transportation hub to feed into a
24 larger pipeline system.

25 Virtually all of this business is

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1 distributor oriented. Distributors supply oil and gas
2 exploration companies the products they need when they
3 need them. Most of these products are sold in common
4 ODs and wall thicknesses and specifications. Most of
5 the eight and five-eighths and under market is just
6 plain API 5L-X42 grade product or dual grade, X42/X52.

7 The distributors seek the best price. They
8 compare import prices to domestic prices, and if the
9 import price is lower they will buy it as long as it
10 meets specification.

11 In my experience, distributors also sell a
12 large percentage of the volumes even in the larger
13 sizes. However, there are some of the larger sizes,
14 particularly 10 and three-quarters through 16 inch
15 product, that are sometimes contract bid requests for
16 pipeline projects.

17 For example, an end user might build a 16
18 inch connector pipeline to link a 36 inch interstate
19 natural gas pipeline to a gas-fired electricity plant
20 or a natural gas distribution company's hub. The gas
21 distribution companies then use smaller line pipes to
22 distribute the gas to businesses and neighborhoods.
23 The final pipe going to most residential customers is
24 generally plastic pipe.

25 Because the gas is being used at higher

1 pressures when gas travels longer distances, to reduce
2 the wall thickness and the steel quantity required to
3 make the pipe some requests for larger pipe are now
4 Grade X60, Grade X65 and Grade X70.

5 Second, from the latter part of 2006 through
6 the filing of these cases in April 2008, we saw an
7 explosion in the growth of line pipe imports from
8 China. Even though demand was growing, the imports
9 from China were growing much faster than market
10 demand, and the U.S. industry lost significant market
11 share.

12 The companies I represent had to respond
13 with lower prices, with the result being lower
14 profitability. As an example, in the summer of 2007
15 right after U.S. Steel acquired Lone Star Steel,
16 rampant Chinese imports forced us to curtail the
17 production of line pipe at Tex-Tube.

18 May through September of this year was one
19 of the best periods that I've ever experienced in the
20 line pipe business. Strong demand and declining
21 imports from China allowed us to increase sales and
22 pass along increased steel costs.

23 But since mid October 2008, the market has
24 changed dramatically. Customers have simply stopped
25 ordering. The credit crisis caused this change.

1 Customers are cutting inventory.

2 Unfortunately, for 2009 we project a rig
3 count decline of 15 to 20 percent to a level of 1,600
4 to 1,650 rigs compared to the 2008 average of 1,950 to
5 2,000 rigs. Along with distributors destocking, this
6 will result in at least a 15 to 20 percent decline in
7 2009 consumption. Thank you.

8 MR. CONWAY: Madame Chairwoman, members of
9 the Commission, good to be back here to see you again.
10 My name is Tom Conway. I'm the International Vice
11 President for United Steel, Paper, Forestry, Rubber,
12 Manufacturing, Energy, Allied Industrial and Service
13 Workers Union. We're also called the Steel Workers
14 for short. Many of us even struggle with that name.

15 Are union is the largest industrial union in
16 North America, and our members make the subject
17 product at U.S. Steel Corporation, Maverick Tube, Tex-
18 Tube Company, IPSCO Tubulars, Stupp Corporation and
19 Wheatland Tube Company. We're Petitioners in this
20 investigation because we believe that unfair trade
21 continues to hurt American workers.

22 As I look over the record here, three points
23 in particular sort of jump out at me. First, the
24 level of unfair trade here is simply incredible.
25 Commerce found that the Chinese imports were

1 subsidized at rates of 37 to 40 percent. In other
2 words, the U.S. government has found that we would
3 have to impose a 37 to 40 percent tariff just to
4 eliminate the benefits that the Chinese producers
5 receive from government support.

6 It doesn't even include China's dumping
7 margins which range from 68 to 82 percent in
8 Commerce's preliminary determination. It's simply
9 absurd to believe that American workers are not harmed
10 by having to compete against foreign companies that
11 engage in unfair trade to this magnitude.

12 If you and I are competing for the same
13 business and I receive that kind of massive support
14 from my home government but you don't, you're going to
15 be hurt. It's just common sense. In fact, over the
16 long run, you'll probably be run out of business
17 unless you can get some form of trade relief. That's
18 why Congress passed these unfair trade laws, and
19 that's why it's important that the laws be strictly
20 enforced.

21 Secondly, the Chinese producers have refused
22 to participate in your investigation. The Petitioners
23 identified 65 Chinese companies that produce welded
24 line pipe. Your staff sent foreign producers
25 questionnaires to each of these companies. Only one

1 Chinese producer filed a response. Moreover, the
2 Chinese producers haven't submitted briefs or even
3 sent witnesses to this hearing.

4 I cannot imagine going back to our workers
5 and explaining to them that the Commission did nothing
6 to stop an enormous flood of dumped and unsubsidized
7 imports from China even though the Chinese producers
8 didn't show up to the hearing, didn't provide
9 information requested by the Commission, and didn't
10 make any effort to rebut the testimony and the
11 evidence put on the record by the domestic producers.

12 Third, this hearing is taking place in the
13 middle of a severe economic crisis. You've already
14 heard about the crisis from the companies' witnesses,
15 but let me give you a perspective from the workers in
16 the mills. They're very worried.

17 The entire U.S. auto industry is perhaps
18 facing its gravest crisis in its history, we're
19 spending \$700 billion to prop up Wall Street, consumer
20 confidence is at an all time low, unemployment is
21 going up every week, in particular, in the steel
22 industry, people are seeing their life savings
23 disappear, they don't even know if their banks are
24 safe.

25 Meanwhile, oil and gas prices are collapsing

1 to inevitably drag down a demand for this welded line
2 pipe. Our members see what's going on around them and
3 they're asking themselves, am I next? Or am I going
4 to lose my job? Will I be able to meet the kids'
5 tuition requirements? Will I still be able to help my
6 parents? Will we have to sell this house and move?
7 Can we sell the house if we have to?

8 People are living in scary times. In fact,
9 the line pipe workers at Maverick's second shift that
10 you heard talked about here in Counce have already had
11 their answers given to them. Last week, Maverick
12 announced that it will lay off 21 employees. There
13 are 21 families and jobs in a rural community with few
14 alternatives of finding work that pay that way for
15 them.

16 In short, our members and our workers are
17 having to face a lot of difficult challenges. It's
18 the just way the world is right now. Our workers
19 should not have to face another surge of imports from
20 companies that have proven to engage in unfair trade
21 on a massive scale.

22 It's bad enough to lose your job, and your
23 healthcare, your chance to retire because of mistakes
24 you made, or unavoidable downturns in the market
25 conditions, but imagine what it's like to see your job

1 put at risk not because of anything you did wrong or
2 not because of factors beyond someone's control but
3 simply because your government did nothing to prevent
4 a flood of dumped and subsidized imports from slamming
5 into this market.

6 What kind of message does that send our
7 American workers? I urge you to send a very different
8 message. You can assure our members that United
9 States will enforce its trade laws, that we will not
10 abandon them to suffer injury due to unfair trade.

11 You have a great opportunity to prevent
12 significant harm and to send a powerful signal that
13 China cannot solve its own economic dilemma by
14 exporting those problems to the U.S. Take that
15 opportunity to reach affirmative determination in
16 these investigation. I thank you for your time.

17 MR. HECHT: And that concludes our
18 presentation.

19 CHAIRMAN ARANOFF: Well, welcome to all of
20 the witnesses today. I know it's welcome back for
21 many of you whom we've been seeing a fair bit of
22 lately. We appreciate all of you taking time away
23 from your businesses, especially in these difficult
24 times, to come and give us your input on these
25 investigations. We're going to begin the questioning

1 this morning with Commissioner Pinkert.

2 COMMISSIONER PINKERT: Thank you, Madame
3 Chairman, and thanks to all of you for being here
4 today and for helping us to understand what's going on
5 in this industry. I want to begin with something that
6 Mr. Schagrín said in his opening statement.

7 I believe that you said that the Chinese
8 industry made a strategic, and I underlined the term
9 strategic in my notes, decision not to participate in
10 this proceeding. Do we have any indication on the
11 record as to their reason for not participating?

12 MR. SCHAGRIN: This is Roger Schagrín.
13 Commissioner Pinkert, the reason for the use of my
14 term "strategic" is that we have spent since the
15 beginning of April of 2008 at the Department of
16 Commerce reviewing Chinese questionnaire responses of
17 companies, reviewing massive amounts, we could fill
18 one of these tables with all the responses from the
19 government of China through very experienced counsel
20 that they have in the countervailing duty
21 investigation and reviewing questionnaire responses in
22 the dumping cases.

23 I would say that among all the China cases I
24 have participated in, this is probably one in which at
25 the Department of Commerce the Chinese have

1 participated most fully.

2 Now, given that these Chinese companies and
3 the Chinese government have retained counsel to
4 represent them at the Department of Commerce I cannot
5 understand that it would be any reason other than a
6 strategic decision for these same companies, the
7 Chinese Steel Association, CSA, the Chinese government
8 not to have their counsel work with them to fill out
9 the ITC questionnaire responses, and to file briefs,
10 and to participate in these hearings.

11 That was the reason for the use of that
12 term. It has to be a strategic decision. I'm not
13 aware of what their strategy is or their internal
14 thought process is, but such massive participation at
15 the Department of Commerce and a refusal to
16 participate here at the Commission had to be a
17 strategic decision on their part.

18 COMMISSIONER PINKERT: Thank you. Now,
19 turning to Mr. Cura, and this could also be answered
20 by other folks on the panel, but I noted something in
21 your testimony about 2009 versus 2007 and I'm
22 wondering if you can testify or if you can explain
23 your view of whether 2009 is likely to be a worse year
24 for your industry than 2007.

25 MR. CURA: I think the short answer is yes.

1 We are confronting beginning of 2009 where we have low
2 commodity prices, credit crunch that is affecting the
3 industry overall, but I like to highlight that this
4 industry in this country is in a good part driven by
5 small, independent companies, and these are the ones
6 as we speak being extraneously affected by the credit
7 situation.

8 So going forward we believe that 2009 from
9 an overall demand perspective would naturally be lower
10 than what we saw in 2007 where we saw commodity
11 prices, activity expanding, so on and so forth. With
12 that said, though, I'd like to also add the caveat
13 which from our perspective is very important. I
14 mentioned some of a global view as to what the
15 industry may expect, not only in the states, but also
16 internationally.

17 I think it's clear and it's fair to say that
18 2009 will be a lot more of a reduced demand as a
19 whole. The U.S., though, continues to be in relative
20 terms the biggest market in the world and this is what
21 makes it very attractive for the Chinese despite the
22 notion that we may be seeing overall a reduced demand.

23 COMMISSIONER PINKERT: Thank you. Is there
24 any other comment from the panel on that issue?

25 MS. AVRIL: I'll just say from IPSCO's

1 perspective our order books have dropped dramatically
2 given the current economic environment, so we are
3 fully anticipating a very difficult 2009. Then, I
4 think the ruling of the Commission will clearly
5 determine the impact of imports from China because if
6 those were to continue, that would essentially wipe
7 out the market as far as we look at it.

8 MR. ALVARADO: Mr. Pinkert? On behalf of
9 U.S. Steel, I'm Joe Alvarado. It's hard to argue with
10 anything that's been stated already. I guess I would
11 just add to it the fact that the energy industry while
12 the prices have declined are still at relatively good
13 levels looking at the history of the energy industry
14 over time.

15 Having said that, the energy industry is not
16 an island and it's affected by demand and supply
17 situations in much the same way that tubular products
18 are, so we would expect that 2009 would be a much more
19 difficult year than we saw in 2008. Certainly all of
20 the economic indicators, the economic financial
21 crisis, what Mr. Cura said about the independents who
22 drill for oil and gas in this country, will all be
23 impacted, and we expect that there will be a residual
24 fallout from that.

25 COMMISSIONER PINKERT: Perhaps staying with

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1 you for a minute, Mr. Alvarado, what is the lag time
2 between the decision to drill an oil well or a gas
3 well and the actual drilling of the well?

4 MR. ALVARADO: I'll answer that by saying
5 that the two are very different. First off, in the
6 United States a lot of the oil drilling is offshore
7 drilling and the lead time and decision making for
8 offshore drilling is years. From decision to lease to
9 decision to build the infrastructure to actually
10 drilling is a very long time period.

11 In the natural gas business, which is more a
12 land-based industry although there's drilling offshore
13 for gas as well -- 80 percent of the rigs in the
14 United States are for land-based drilling principally
15 in gas -- the lead time is much faster. It's a matter
16 of being able to pull the resources together once the
17 commitments have been made and getting supplies,
18 whether it's drilling supplies and/or tubular
19 products, for example.

20 It's a much shorter lead time. Probably in
21 the range of six months to a year before that can be
22 pulled together, but certainly shorter, if you will,
23 than drilling offshore.

24 COMMISSIONER PINKERT: Thank you. Now, I
25 don't know who on the panel might be able to field

1 this next question but I'm wondering whether
2 nonsubject producers can switch from producing
3 standard pipe or OCTG over to producing line pipe, and
4 if so, how would that affect the so-called replacement
5 analysis that we sometimes do with respect to
6 nonsubject imports?

7 MR. HECHT: Jim Hecht. I'll kick it off.
8 It certainly is a theoretical matter. When you have a
9 welded pipe facility there is some ability to product
10 shift, but I think in terms of if you're looking at
11 the Bratsk issue and replacement questions, here
12 there's just no evidence in terms of nonsubject
13 imports that anybody has the size of industry or has
14 the history in terms of export sales in this product
15 area to do anything like what the Chinese have done
16 over the course of this period of investigation or
17 what they threaten to do going forward.

18 That size of that industry is just at a
19 different scale. Certainly the pricing has been at a
20 whole different level from what we've seen in terms of
21 nonsubject imports, and so as I pointed out in the
22 slides that we started with, I think this really is a
23 clear, unique cause of injury that we saw during the
24 period of investigation given that, again, the
25 volumes, the pricing, and then also the evidence you

1 have from the interim period where Chinese imports
2 were reduced and the domestic industry's performance
3 improved substantially.

4 COMMISSIONER PINKERT: Thank you. Mr.
5 Price?

6 MR. PRICE: Thank you, Commissioner Pinkert.
7 I'm going to approach this from a more legalistic
8 perspective for a second. Following the decision in
9 Mittal v. U.S., the replacement benefits analysis that
10 some thought was required by the Courts is no longer
11 appropriate or required.

12 The question before the Commission is really
13 twofold. Are the imports from China a cause of injury
14 or a threat of injury? The straight causation test.
15 There is no replacement benefits issue as to threat at
16 all. So as far as we're concerned, the replacement
17 benefits test is no longer a legally relevant issue,
18 and I think the Commission should just approach this
19 the way it normally approaches any causation case.
20 Thank you.

21 COMMISSIONER PINKERT: Thank you. Mr.
22 Schagrin, did you have something to add?

23 MR. SCHAGRIN: I agree with the comments of
24 both Mr. Hecht and Mr. Price. I would say based on my
25 background on pipe and tube while it is theoretically

1 possible for producers to shift from standard or OCTG
2 to line pipe, assuming they have an API license, as
3 Mr. Hecht said, for most of the nonsubject producers,
4 there's many fewer.

5 You know, there's three producers in Korea
6 versus 65 in China, so the order of magnitude is very,
7 very different even though it is theoretically
8 possible to shift from product to product. We would
9 see with the Chinese in fact just on the table in your
10 response on VII-8 that for those producers, circular
11 welded pipe, which was the subject of the AD and CVD
12 orders, was the principal product. Since they have
13 API licenses they can obviously shift to API line
14 pipe. Thank you.

15 COMMISSIONER PINKERT: Thank you. Thank
16 you, Madame Chairman.

17 CHAIRMAN ARANOFF: Thank you. Well, all of
18 you have been, you know, projecting a likely decline
19 in demand for line pipe in the U.S. market. I just
20 want to parse that out a little bit and look at sales
21 to end users versus sales to distributors.

22 My understanding has always been that sales
23 to distributors, at least in part, go into the
24 replacement and repair market and that that might tend
25 to make them a little bit more recession proof than

1 sales that are going to new projects. Does someone
2 want to comment on that?

3 MR. SCHAGRIN: I would invite, Chairman
4 Aranoff, members of the industry to come up. I
5 believe that the basis for your thought process about
6 sales to distributors being for repair is more the
7 case in the large diameter line pipe category, you
8 know, product above 16 inches in which there's always
9 significant repair work of the major pipelines,
10 whereas in this product probably about 70 percent goes
11 through distribution versus directly end users.

12 Most of what goes through distribution is
13 more likely to be used for gathering lines, so it's
14 tied directly not to existing pipelines but to the
15 need to bring oil and gas from new drilling wells to
16 gathering points and pipelines. So that's why in this
17 size range we would tend to see a steep decline in
18 demand based on a decline in the number of drill rigs
19 operating.

20 That's the main demand driver. I don't know
21 if Mr. Fisher or others would like to comment on that.

22 MR. BALKENENDE: This is Roland Balkenende.
23 If I may make a comment. I would say Mr. Schagrín
24 should join us because he's very familiar with the
25 pipe business. My perceptions in this is what he

1 said. It's not so much a matter of maintenance and
2 repair. The distribution serves the smaller type of
3 gathering projects. That's real intent thereon.

4 CHAIRMAN ARANOFF: Okay. Mr. Fisher, did
5 you want to add anything as the one -- this is a very
6 large panel and we've only got one distributor.

7 MR. FISHER: I really can't add a lot to
8 what they said. I mean, basically there are a lot --
9 a large number of the distributor sales go directly to
10 gathering projects, which can be significant. The
11 distributors are not just serving the repair and
12 maintenance type part of the market. In large OD,
13 that would be the way it would go, not in small OD,
14 which we're talking about here.

15 CHAIRMAN ARANOFF: Okay. Appreciate that.
16 Let me turn then to the issue of raw material costs.
17 Obviously one of the arguments that you've made is
18 that during the period we're looking at there's been a
19 cost price squeeze and producers have not been able to
20 pass on increases in raw material costs.

21 Can you discuss what that situation is like
22 right now in terms of whether prices for your main
23 inputs have come down significantly and what you
24 anticipate with respect to higher or lower raw
25 material costs for the remainder of 2008 and into

1 2009?

2 MR. ALVARADO: I'll start by addressing it.
3 We of course are vertically integrated but face the
4 same market pressures that any of our competitors
5 would at U.S. Steel because we transfer material at
6 market prices, so whatever the market prices might be
7 are born in our raw material costs.

8 I guess I might add first too that whatever
9 is happening in raw material across the United States
10 is happening in China as well. In fact, the Chinese
11 have a significant raw material advantage, at least by
12 published data, of being able to secure hot-rolled,
13 which is the base of source material for the product
14 group.

15 And then with the reduced shipping rates,
16 bulk dry rates are falling, have fallen dramatically,
17 shipping costs are coming down as well, so the threat
18 of Chinese imported line pipe is as real as it's ever
19 been, probably more so as a result of falling raw
20 material costs in China and lower transportation
21 costs.

22 So whatever advantage there might be as a
23 result of lower raw material costs will be quickly
24 lost competitively as others adjust, in particular,
25 the Chinese, who have an advantage over what they

1 might have had in 2007 when transportation costs were
2 very, very high, as well as raw material costs.

3 MR. CURA: If I may. This is German Cura
4 from Maverick. Not only agree with the view as to how
5 the costs may evolve and the way this would affect not
6 only us here in the States but overall industry,
7 including the Chinese, but the real concern of ours is
8 that Chinese producers are not by and large driven by
9 costs and profitability by volume.

10 These are state-owned enterprises which are
11 designed to employ people, and so not only are they
12 going to I think capture the benefits of their
13 adjusting costs but they have a clear cut interest in
14 keeping the mill running no matter what.

15 CHAIRMAN ARANOFF: Okay. I understand that
16 I need to look at this from a relative standpoint in
17 terms of any cost declines, but I do want to just --
18 all of you implied but didn't actually say that your
19 hot-rolled costs are going down, so I take it that's
20 true.

21 I don't know if someone wants to put on the
22 record the extent to which they have come down and
23 what you think is going to happen with respect to hot-
24 rolled costs over the next, you know, six months or
25 so. That would be helpful.

1 MR. PRICE: I'm sure the panel will do so in
2 the postconference briefs.

3 CHAIRMAN ARANOFF: Okay. Thanks. Now, on
4 another cost issue that was just raised, my
5 understanding is that ocean freight rates have come
6 down, some people have used the word spectacularly, in
7 very recent period. I'm not sure that we have that
8 information on the record because I know, you know,
9 looking at cases maybe six months ago or so we were
10 being told that ocean freight rates were so high as to
11 be prohibitive of a lot of steel imports.

12 I don't think that's true anymore. If
13 anyone would like to comment on what's happened in the
14 last few months with ocean freight rates and what you
15 see happening in the near future, that would be
16 helpful.

17 MR. VAUGHN: Chairman Aranoff, Stephen
18 Vaughn representing U.S. Steel. We did put some data
19 regarding the Baltic Dry Index. I think it's one of
20 the exhibits in our brief. You are correct. There
21 has been a dramatic drop off in freight rates over the
22 last few months.

23 That's important not just because, as Mr.
24 Alvarado pointed out, this makes them more likely to
25 increase shipments to this market, a lot of experts

1 have indicated that this is, you know, kind of an
2 index, really, that gives you a sense of what's going
3 on in terms of business activity in China.

4 So whenever you see a significant drop off
5 in that index as we've seen, it bodes very ill for the
6 Chinese economy and it's another example of how
7 they're being hurt by the economic crisis and that
8 they are more likely to increase shipments to this
9 market.

10 CHAIRMAN ARANOFF: Mr. Cura?

11 MR. CURA: Commissioner, I would be very
12 happy to provide the Commission specific information
13 as to what we've seen given the nature of the global
14 company that's been exposed to freight rates over the
15 last year, year and a half. So we'll make sure that
16 the information is sent across within the posthearing
17 notes.

18 CHAIRMAN ARANOFF: Okay. That would be
19 helpful. I'd also be interested in anything that's
20 happened with respect to domestic freight rates within
21 the U.S. for your shipments to your customers because
22 obviously the price of gas has come down, that's got
23 to, I assume, reduce the price of trucking the product
24 and maybe also affecting rail transportation costs.
25 So I see that my light is on, and I'm going to turn it

1 over to Vice Chairman Pearson.

2 VICE CHAIRMAN PEARSON: Thank you, Madame
3 Chairman. Permit me to extend my welcome to the
4 members of this panel. We have an impressive cross-
5 section of the U.S. line pipe industry here, and I
6 very much appreciate your expertise and your
7 willingness to participate in this hearing.

8 I understand the importance of remaining
9 flexible, and, you know, my teenage daughter pushes me
10 to do more of that because my natural tendencies run
11 the other way. Our staff, I know, they work really
12 hard to give us all the information pertinent to a
13 hearing.

14 In this investigation they may have given us
15 a bit more regarding Korea than they otherwise would
16 have, and so I'm wondering, could you explain what led
17 to the withdrawal of the petition with respect to
18 Korea? I ask not just because it deprives us of the
19 opportunity to discuss cumulation, but I'm kind of
20 curious. Mr. Hecht?

21 MR. HECHT: Sir, I'm happy to kick it off.
22 It's a little bit difficult to say too much on it. It
23 basically had to do with the situation we faced at the
24 Department of Commerce, a lot of which is under
25 protective order.

1 Looking at the margins of unfair trade that
2 were established at the preliminary determination,
3 looking at the prospects and some of the specific
4 issues we face going forward, we just felt that it was
5 a better use of our resources and the government
6 resources to focus on China going forward, which,
7 again, we think has been the biggest problem we have
8 faced in this market.

9 So it's difficult to say much more than
10 that. It really did have to do with the situation we
11 faced at the Commerce Department. As you know, we
12 increasingly have some methodological issues we deal
13 with there, whether it's zeroing or other things as
14 well, that we don't necessarily agree with but we're
15 dealing with now as well.

16 VICE CHAIRMAN PEARSON: Mr. Price?

17 MR. PRICE: Alan Price. To be blunt about
18 it, China is such a massive problem, such an
19 overwhelming problem, we want to make sure that from
20 my clients' perspective we're focused on this problem
21 here in this hearing.

22 Given the overwhelming problem that China
23 caused, given, frankly, the benefits we saw from China
24 getting out following the filing of the petition and
25 the importers basically confirming that the exit was

1 due to the petition, given that the capacity
2 situations we face with China are just so overwhelming
3 and such a problem out there, not only for the welded
4 line pipe industry in this investigation but, frankly,
5 for the welded pipe and pipe industries throughout the
6 world right now is why we're seeing all of these cases
7 out there against China, we thought it was, frankly,
8 essential to keep this hearing focused on what our,
9 frankly, greatest problem is and gravest concern is.

10 VICE CHAIRMAN PEARSON: Mr. Schagrín?

11 CHAIRMAN ARANOFF: We have to have you
12 actually use a microphone because that's the only way
13 the court reporter can hear, so if you could borrow
14 another one? Also, if anybody's got a cell phone or a
15 Blackberry that's on near the microphone, that
16 sometimes causes them to do that.

17 MR. SCHAGRIN: Not me. I know better. I
18 don't have anything to add to the legal points made by
19 both Mr. Hecht and Mr. Price but in keeping with the
20 theme of this year's CIT Judicial Conference it is
21 unfortunate that the withdrawal of the Korea case
22 deprived the Commission of the opportunity to hear my
23 good friend, Don Cameron, rant somewhat.

24 Now, we handed him a victory without, you
25 know, him having to even make presentations to the

1 ITC. Other than that, I have nothing further to add.
2 Just wanted to give you that shout out, Don, you know,
3 a la Governor Palin. Just wanted to shout out to that
4 third grade class and Don Cameron.

5 MR. CURA: Commissioner Pearson?

6 VICE CHAIRMAN PEARSON: Mr. Cura?

7 MR. CURA: I'd just like to add a very brief
8 comment from a pure business perspective, not so much
9 the legal intricacies and the winks that I just
10 realized Mr. Schagrin gave. Korea was a concern, and
11 I tell you from a business perspective, still is.
12 We're watching, we're monitoring and we're carefully
13 looking at what they're doing.

14 Now, from a day-to-day practical business
15 perspective is this notion that China continues to
16 invest, China has the capacity that it has, China has
17 a clear cut distinction of keeping the mills running
18 no matter what, China creating rebates, China creating
19 export taxes for flat-rolled products and export
20 rebates for welded line pipe which, frankly, led us to
21 believe that we have a concern cannot be measured in
22 the same way. That's why I think we keep on talking
23 about China.

24 VICE CHAIRMAN PEARSON: Okay. Am I correct
25 to understand that China and Korea are the two largest

1 exporters of line pipe? I see Mr. Schagrín nodding
2 yes.

3 MR. SCHAGRIN: Yes.

4 VICE CHAIRMAN PEARSON: Is Korea still the
5 larger of the two or has China overtaken Korea? Mr.
6 Hecht?

7 MR. HECHT: China has clearly overtaken
8 Korea. You know, I think the staff report has data in
9 there from the Global Trade Atlas which seemed to
10 suggest in 2007 that Korea might have been bigger. We
11 think that's incorrect. If you look at the data
12 they've got for China, it clearly understates
13 dramatically China's exports to the U.S. during that
14 period just based on the record you've established
15 here.

16 If you just add that difference back in,
17 China was far bigger even in 2007. Assuming that
18 their own export numbers were depressed or reported
19 too low for the markets as well, we think they were
20 far bigger in 2007 and clearly are bigger in 2008 even
21 with the Global Trade Atlas data there.

22 VICE CHAIRMAN PEARSON: Okay. Let me just
23 clarify. You're talking about the exports of those
24 two countries to the world not their exports to the
25 United States, is that correct?

1 MR. HECHT: That's correct.

2 VICE CHAIRMAN PEARSON: Thank you. Mr.
3 Vaughn?

4 MR. VAUGHN: Yes. Stephen Vaughn. Just to
5 follow-up on what Mr. Hecht said, and just to give you
6 a sense of --

7 VICE CHAIRMAN PEARSON: Follow up a little
8 closer to the microphone, if you could, please.

9 MR. VAUGHN: Okay. Just to follow-up on
10 what Mr. Hecht said, and just to give you a sense of
11 the actual numbers here, the World Trade Atlas data,
12 and, again, this is their total exports to the world,
13 using the same product category that's used in the
14 staff report, for the first nine months of 2008 the
15 figure for Korea is 279,793 tons, the figure for China
16 is 541,899 tons, so it's quite a big gap at this
17 point, even based on these numbers.

18 VICE CHAIRMAN PEARSON: Okay. Thank you.
19 Mr. Hecht, you made the slide presentation at the
20 start of the panel. Slide 10 stated that Chinese
21 imports were priced far below other import sources.

22 I'm wondering, could you elaborate on that
23 in the context of the pricing information shown in the
24 confidential staff report relative to pricing of
25 imports from Korea? You might have to touch on that

1 in the posthearing, but if there's anything you could
2 say now, it would be good to know.

3 MR. HECHT: We'd be happy to. Obviously
4 it's difficult to comment on the confidential data.
5 What we were basing the statement on here was the AUV
6 data that we can get from Census where it does show a
7 very dramatic difference, both China versus Korea and
8 also China versus other nonsubject sources. We'd be
9 happy to walk through also the confidential data based
10 on the coverage you've got in the staff report in our
11 brief as well.

12 VICE CHAIRMAN PEARSON: Okay. Thank you.
13 Let me just clarify. It doesn't bother me at all that
14 you've made the Commission's life simpler by
15 streamlining the case, so I wanted to ask about this
16 but don't take it as, you know, a criticism or
17 anything like that, okay? Now, you're making the case
18 that demand in the U.S. market is quite weak and going
19 to be weak and the distributors are working off
20 inventories and not buying from any source.

21 In that case, why would we expect a surge of
22 imports from China? Who would buy those imports? We
23 know from the record that the Chinese are selling
24 primarily to distributors rather than to end users, so
25 how does this surge find a home in the United States?

1 MR. ALVARADO: I'll take that on first and
2 then others might want to add in. The issue that
3 we're talking about, at least in terms of a decline in
4 demand, there's still going to be commerce, there's
5 going to be activity, there will be line pipe that
6 will be laid and trunk lines that need to be
7 connected. There's plenty of activity, just not at
8 the levels that we'd like to see it.

9 The issue I think goes back to what Mr. Cura
10 said earlier, that the Chinese when they focus on a
11 market will be very directly focused on maintaining
12 share. I would venture to say that if the Commission
13 didn't rule in the affirmative it would take about
14 five minutes before people and outside distributors
15 would try and take advantage of lower-priced imports
16 if nothing else to have a competitive advantage in the
17 marketplace when bidding on projects.

18 That activity takes place really, really
19 quickly, and there are dollars available to fund that
20 kind of activity as long as there's a tied-in sale.
21 It's easier to tie in a sale if you know what your raw
22 material costs are and if your raw material costs are
23 lower than your competitor's inventory costs. So the
24 Chinese have focused on volume.

25 They focus on volume because it means

1 employment. A great deal of the support that local
2 mills get is from provincial governments encouraging
3 them to keep people employed because of the potential
4 social unrest or problems that might be related to
5 unemployment in local communities.

6 So we would expect that if there isn't an
7 affirmative determination, there will be a quick
8 follow-up and a quick rise of Chinese imports to this
9 market. Even though the market might be depressed,
10 they would try and target the levels of volume that
11 they've shipped before.

12 VICE CHAIRMAN PEARSON: My light has turned
13 red so I will pass for this round. Back to you,
14 Madame Chairman.

15 CHAIRMAN ARANOFF: Commissioner Okun?

16 COMMISSIONER OKUN: Thank you, Madame
17 Chairman. I join my colleagues in welcoming all of
18 you here. I think it's particularly great to have so
19 many industry witnesses here at a time when since we
20 issued the preliminary determination in May 2008
21 global demand has changed significantly, I think
22 domestic demand has changed significantly, and Korea
23 is no longer in the case.

24 So we have lots of distinctions from the
25 preliminary case so it's very helpful to have you here

1 to talk about that. Let me start with a request for
2 posthearing. I know that in each of your briefs and
3 today you've put a lot in there about what you expect
4 the rig count to be and what you expect demand for
5 this product to be.

6 I think it would help to have that kind of
7 put in one place and then kind of talking about what
8 you think, you know, again, I voted threat in the
9 preliminary, so for purposes of the imminent future,
10 what you think we see on demand. So if you can kind
11 of crystalize all the projections that we have and
12 help me understand just looking forward where you see
13 demand and how that affects demand for this project.

14 Include in there the information you've
15 already talked about about the lag. I understand very
16 much that it's much different for the vast majority of
17 the rigs being land-based. So that will be helpful.
18 And then what I wasn't sure we had as much about, I
19 know we have a lot of data out there, but if you could
20 do the same thing for global demand just so that I
21 better understand what the global situation is, again,
22 looking at the imminent future. That would be
23 helpful.

24 Then let me follow-up. I think the Vice
25 Chairman had raised a number of questions that I had

1 with respect to Korea, but let me put the question
2 this way, and appreciate both hearing from producers
3 and from legal, which is, I guess, Mr. Price, I would
4 agree with you that I think what Mittal told us is
5 that, you know, what we're really looking at is
6 causation, that we don't need to do the rigid test
7 that we came to interpret from Bratsk, but I think
8 that that causation also applies in threat, and so in
9 looking at nonsubjects in a threat context, help me
10 better understand, and I know I've heard some of it
11 already, but if we're only talking about China and I'm
12 looking out there and I see demand is going to fall
13 off, why would it be that the Chinese will be the
14 material cause of injury instead of the Koreans or
15 others who may be better situated as to serve some of
16 the demand that's out there?

17 So just help me understand. Maybe I'll
18 start with you, Mr. Cura, because you've said a number
19 of times like why you see them commercially as most
20 significant, and help me looking forward in a vastly
21 different world in terms of demand.

22 MR. CURA: Well, the view continues to be
23 that when we look at Korea, other markets, the
24 capacity investments that we see there, the way the
25 companies are run, one is led to believe that when you

1 compare their behavior vis-à-vis again a block, a
2 Chinese block that works under the premise of keeping
3 the plants running, works under the premise of keeping
4 people employed, works under the premise of sustaining
5 volumes, particularly markets where the existing
6 commercial channels are already in place. Then I
7 would say the distinction is from our perspective
8 enormous.

9 As I was saying before, are we concerned?
10 We are, but when you look at the scale difference,
11 when you see the massive production capacity, when you
12 see the decision of keeping the mills running, when
13 you see the incentives that the governments are
14 creating, I guess from our perspective, the rationale
15 is that we are simply under two different scale
16 problems.

17 COMMISSIONER OKUN: Okay. And Mr. Alvarado,
18 I think you had maybe already commented that you think
19 they would be focused on their market share and they
20 can do that even if demand is falling.

21 MR. ALVARADO: Yes. Maybe I can share an
22 experience I've had when I was president of Lone Star
23 Technologies I was involved in negotiating a business
24 arrangement with the Chinese over a two-year period,
25 and one thing that was clear at least in my mind is

1 that there's a great deal of attention and focus on
2 moving volume. It was very difficult and frustrating
3 for an American or U.S. perspective to talk about
4 returns, returns on investment because that wasn't the
5 focal point.

6 The focal point was how do we get the
7 facility up and running, how do we export product to
8 the United States, how do we fill our mill? And
9 that's quite simply the concern that we have with the
10 Chinese with the excessive overcapacity and concerns
11 about unemployment, that they'll push product at any
12 price that it can be pushed. And without any barriers
13 to trade they would quickly reenter this market and be
14 very aggressive in their pricing.

15 COMMISSIONER OKUN: Okay. And Mr. Schagrin,
16 yes?

17 MR. SCHAGRIN: Yes, I would add in terms of
18 any, you know, forward looking on the threat issues
19 comparing the Chinese, the nonsubject, and obviously
20 the principal nonsubject is Korea, that while the
21 information based on questionnaire responses in the
22 Commission's prehearing staff report is confidential
23 the Korean pipe companies are pretty well known to me.
24 I've been litigating against them for I think about 26
25 years.

1 And they're all public companies, Haiendai
2 Hisko, Saya, and Hu Steel, and there's plenty of
3 public information from their websites or other source
4 of public data that each of those three big Korean
5 mills have total capacity for production of all welded
6 pipe and tube products in the range of about a million
7 to a million and a half tons. So you're looking at a
8 Korean industry in comparison to China where the
9 Chinese are adding as much new welded pipe and tube
10 capacity each year as the entire size of the Korean
11 pipe and tube industry. I mean it's just amazing.

12 And of course this is not unique to welded
13 pipe and tube. The Chinese are doing this in steel
14 and many other products. It's just mind boggling how
15 much new capacity each year China adds. Furthermore,
16 as I think has been pointed out by some on the panel,
17 because there's so much steel overcapacity in China
18 that as demand in China for steel has dropped and as
19 demand worldwide for steel has dropped, the price of
20 subsidized steel in the Chinese market has just
21 dropped incredibly.

22 I mean it's a worldwide decrease in demand.
23 But while prices in the U.S. or other markets for
24 steel may have fallen by \$200-300 a ton, in China they
25 fell by \$600 or \$700 a ton. So that now the price of

1 steel in China is about \$375 for a hot rolled and it's
2 about \$750 in the U.S. and in Europe and other
3 markets. The Chinese can automatically buy steel and
4 make product and ship it to the United States and be
5 \$300 or \$400 a ton less than U.S. producers' costs.
6 And it doesn't matter --

7 COMMISSIONER OKUN: And on that, Mr.
8 Schagrin, would you say looking forward that you think
9 it would be more the price which the Chinese would
10 come in or the volume that would allow them to
11 continue to keep out nonsubjects? In other words, you
12 know as we look at this record you did see including
13 in the interim when Chinese go out nonsubjects have
14 moved in. So I'm just trying to understand in terms
15 of again not attributing injury to the other things
16 what you think would be the biggest driver or the
17 biggest difference between Chinese product versus
18 nonsubject product.

19 MR. SCHAGRIN: I think first of all it would
20 be price because this is a commodity product. It's
21 sold on the basis of price and the Chinese have proven
22 in the past prior to the filing of this petition that
23 they will offer the lowest price in the U.S. market
24 and that's how they'll gain volume. So the first and
25 biggest effect will be price, and of course volume

1 will follow that price. So whatever distributors are
2 buying at whatever reduced rate from 08 operations
3 whether it's reduction of 15 or 20 or 25 percent to
4 their volume purchases, they will buy Chinese first.

5 And if you look at a world in which credit
6 is more important than it ever has been before, if you
7 have to buy Chinese 60 to 90 days in advance versus
8 buying domestic in a week, if someone gives you a
9 price that's 40 or 50 percent lower no one even thinks
10 about the additional credit costs of, you know having
11 to hold inventory for another 60 days if your price
12 savings is \$300 or \$400 a ton, or a matter of 40 to 50
13 percent. So the Chinese are unique. They are
14 horrific, and they are a unique individual threat of
15 injury to this industry.

16 COMMISSIONER OKUN: Mr. Hecht, you had
17 wanted to add something?

18 MR. HECHT: Yeah, just real quick. I think
19 for your threat purposes too you've got to look
20 closely at the trends we've seen over the period.
21 Clearly you had some growth of Korean exports to this
22 market and a market share basis some increase. But
23 when you compare that to what China did it's just
24 incredible. I mean literally a 900 percent increase
25 in their shipments to this market, market share going

1 up to 20 percent from around 3-5 percent.

2 And then you look at what they've done in
3 terms of adding new capacity, you look at what they've
4 done in 2008 in terms of the worldwide exports of pipe
5 products I just think those trends are at a completely
6 different level if you look at what the threat is
7 going forward. Not that there's not an issue and a
8 concern with Korea but it really is of a different
9 magnitude when you talk about China.

10 COMMISSIONER OKUN: Mr. Thompson, you look
11 like you wanted to add something.

12 MR. THOMPSON: Yes, Commissioner Okun.
13 Following up on Mr. Alvarado's comments earlier, I
14 think what you will find without a favorable ruling
15 for us, that the Chinese will peg the volume and
16 they'll move it at whatever price they have to in
17 order to get that volume into this market.

18 COMMISSIONER OKUN: Okay. I appreciate all
19 those comments. My red light's come on. Thank you.

20 CHAIRMAN ARANOFF: Commissioner Lane.

21 COMMISSIONER LANE: Good morning. I want to
22 welcome all of you to this hearing this morning. And
23 I especially want to welcome Mr. Cameron who's sitting
24 back there in the back and I know he's here just to
25 make sure we don't put Korea back in this case. And

1 Mr. Conway, I am tempted to ask you but I won't, to
2 see if you could tell us the name of your union
3 without reading it.

4 MR. CONWAY: I appreciate you not asking me
5 that, Commissioner Lane.

6 (Laughter.)

7 COMMISSIONER LANE: Okay. On a more serious
8 note let's go to Mr. Hecht and Mr. Alvarado. First,
9 did U.S. Steel produce subject pipe before its
10 acquisition of Lone Star in 2007?

11 MR. ALVARADO: Yes we did, Commissioner.

12 COMMISSIONER LANE: Okay. Could you explain
13 where U.S. Steel gets its steel coil that it uses to
14 produce subject pipe, specifically I would like to
15 know if your subject pipe facilities receive coil from
16 affiliated U.S. Steel operations or whether you buy
17 coil from unaffiliated producers?

18 MR. ALVARADO: Let me start by saying that
19 the facility that produced ERW while with line pipe
20 before the acquisition of Lone Star reserve Camp Hill
21 facility in McKeesport, Pennsylvania. That facility
22 produces product up to 20 inches. Knowing that this
23 case is 16 inches below we go down to 8 inches. So
24 it's very much affected by the matters before the
25 Commission. That facility like our facility in east

1 Texas is presently supplied by U.S. Steel affiliated
2 companies, from a variety of plants, Sumon Valley,
3 from Granite City in St. Louis, from Fairfield, from
4 Great Lakes in outside of Detroit, Gary, and even from
5 Canada from time to time.

6 So our sourcing today is principally from
7 U.S. affiliated facilities. And I say that in the
8 context of there was a transition where we were still
9 buying some product from third party vendors. Early
10 on in the acquisition we also had slabs that we had
11 purchased as Lone Star that were converted on U.S.
12 facilities. So there had been a variety of other
13 sources but predominantly throughout the course of
14 this year we've been supplied by internal sources.

15 COMMISSIONER LANE: Okay. I would like for
16 you to a look at question III-7 through III-10 in the
17 producer questionnaire which you filed and explain
18 whether your answer to my question regarding internal
19 transfer of coil for pipe production is consistent
20 with your questionnaire responses and whether it's
21 consistent with your statements in your brief, pages
22 25-29?

23 MR. ALVARADO: Okay. We'll take a look at
24 that.

25 MR. HECHT: We'd be happy to do that. It is

1 consistent but we'll explain why or --

2 COMMISSIONER LANE: Well would you look at
3 that now and tell me -- it would appear to me to be
4 inconsistent. And are you saying that it needs
5 further explanation posthearing or do you think you
6 can do it on the record now?

7 MR. VAUGHN: I think a lot of it has to do
8 with the question refers to related firms as opposed
9 to the actual firm, but we can explain that more in
10 the context of the posthearing brief.

11 COMMISSIONER LANE: Okay, thank you. Now
12 continuing with U.S. Steel, and I'm phrasing this
13 question very carefully to avoid divulging and
14 business proprietary information but I hope you can
15 give me some answers now even if you have to
16 supplement them posthearing. I would like for you to
17 explain the direct labor component of your cost of
18 goods sold. Specifically I would like for you to
19 explain where the direct labor shows up on Schedule
20 III-12 of your questionnaire response and how much
21 direct labor is associated with the pipe production
22 reflected on Schedule III-12 of your questionnaire
23 response.

24 MR. VAUGHN: Again Commissioner Lane, that
25 is a question that I think we have given some

1 information on in the preliminary phase I believe but
2 we would like to address that more in the posthearing.

3 COMMISSIONER LANE: Okay. Now I would like
4 for you to also take a look at the unit value of
5 sales, raw materials, direct labor and other factory
6 costs as can be derived from your answer to question
7 III-13 in your questionnaire response and explain what
8 happened in interim 2008 to cause the values to change
9 so significantly from what had been reported prior to
10 interim 2008. If you want to take a stab at that now
11 I would like that, and you can provide more detail
12 posthearing. That would also be fine.

13 MR. VAUGHN: Once again Commissioner Lane, I
14 think it'll be best if we address that in the
15 posthearing.

16 COMMISSIONER LANE: Okay, going back to your
17 questionnaire responses which I had had some questions
18 about, I understand from your brief that you're making
19 the argument that the staff has required you to
20 provide any internal transfers at cost and that your
21 normal course of business is to do it at market value.
22 As I read the questionnaire, the questionnaire gives
23 you the opportunity to provide a supplement to provide
24 it at market value and as far as I can see you chose
25 not to do so, is that correct?

1 MR. VAUGHN: Commissioner Lane, this is
2 Stephen Vaughn. We did submit that data as part of
3 our prehearing brief. The value at the transfer price
4 has been submitted as part of the prehearing brief.

5 COMMISSIONER LANE: Okay, do you think that
6 you could provide it posthearing so that I could look
7 at it in one source?

8 MR. VAUGHN: Yes we will.

9 COMMISSIONER LANE: Okay. Now IPSCO. The
10 same issue. As I understand it, IPSCO provided its
11 internal transfers at market value and did not provide
12 it at cost as requested by the Commission. Now can
13 you provide that posthearing at cost?

14 MR. BARNES: Scott Barnes for IPSCO. No,
15 ma'am. Those records don't exist.

16 COMMISSIONER LANE: Okay, would you --

17 MR. SCHAGRIN: Can I help you, Commissioner
18 Lane? Because I've been representing IPSCO for so
19 long and this issue has come up in a number of cases.

20 COMMISSIONER LANE: Obviously I need all the
21 help I can get. Yes, thank you.

22 MR. SCHAGRIN: No, no. Just as to this
23 issue. Because, and it may be a difference in the way
24 that U.S. Steel is organized versus IPSCO, but IPSCO
25 traditionally, and they've been involved in a lot of

1 cases here, operated their various divisions as
2 completely separate operating units. And unlike the
3 answer from Mr. Alvarado about sourcing primarily from
4 their own internal, IPSCO's tubular divisions, of
5 which there are several of them that operated as
6 independent companies, always purchased steel from
7 whichever vendor, whether it was another IPSCO
8 division or Nucor or U.S. Steel or Weirton, any
9 outside steel supplier, at whoever gave them the best
10 price.

11 And they were not required nor were they set
12 up to try to source all of their products internally
13 from related IPSCO divisions. And that is why they've
14 always responded, whether it was OCTG or circular
15 welded pipe or line pipe cases, as the IPSCO tubular
16 divisions giving their cost of steel as paid to
17 outside vendors. And we have, we weren't required to
18 do it in this case, but it's a matter of public record
19 that in other cases we actually proved to the
20 accounting staff at the Commission that IPSCO was
21 paying the same prices to related party vendors and to
22 unrelated by providing them with a number of invoices
23 and steel type purchased etcetera.

24 And so that's why IPSCO has not provided
25 that cost information. Furthermore because of recent

1 changes the issue has become moot. Because now there
2 actually is no relationship between what is now TMK-
3 IPSCO Tubular and SSAB North American division. And
4 this probably shows how divided up these assets were,
5 that the parent of the overall company actually
6 separately sold just the assets of the tubular
7 operations and kept the flat rolled operations. So at
8 this point there's not even a legal relationship
9 between any IPSCO Tubular and IPSCO Steel operations.

10 COMMISSIONER LANE: Okay. MR. Hecht, my
11 light is on so I'll come back to you for your answer
12 during my next round.

13 CHAIRMAN ARANOFF: Commissioner Williamson.

14 COMMISSIONER WILLIAMSON: Thank you, Madam
15 Chairman. And I do want to thank the witnesses for
16 their testimony today. I was wondering if anyone can
17 give me an indication, what share of demand for the
18 product at issue is tied to pipeline projects and how
19 has this changed over time? This has been discussed
20 in other cases and I got the impression from Ms. Avril
21 that maybe you don't do as much project work as maybe
22 some of the other firms. I may have been incorrect in
23 that.

24 MR. FISHER: There is project work on the
25 larger diameters. And that project work would be

1 generally 10, 12, and 16 inch and it would involve a
2 lot of miles of pipe. And in a lot of the smaller
3 diameters we're talking about here though the project
4 will be a gathering system which may not encompass as
5 many miles of pipe but is considered project by either
6 the gathering company or the oil company doing the
7 work.

8 COMMISSIONER WILLIAMSON: Oh, so are you
9 saying that when you have most of the demand for the
10 smaller diameter pipe, even if it were part of a
11 larger project it would be procured separately as
12 through a distributor or something like that? Or when
13 you say projects you're saying --

14 MR. FISHER: Projects can be bought direct
15 from the end user or through the distributor. It's
16 done both ways, it just depends on the end user and
17 his perspective. If the guy's buying 200 miles of 16-
18 inch, typically that kind of job will go through
19 directly from the mill to the end user. It doesn't
20 always happen like that but that's the typical way.
21 If an end user is buying maybe 2,000 tons of four
22 different sizes for a particular gathering project
23 that typically goes through an end user. It may not
24 be considered a project, but it is a project for the
25 person putting in the pipe. Does that make sense?

1 COMMISSIONER WILLIAMSON: Yeah, I think it
2 does. Does anybody else want to add anything to that?

3 MR. BALKENENDE: Yes. This may be
4 definition why it's difficult to talk about what is
5 project and what is another part. In the line pipe
6 area the larger of these very well known interstate
7 pipeline as Mr. Fisher mentioned, this is the case
8 where the project environment exists. And the
9 channels can go through distribution and can come to a
10 manufacturer direct. The sale channel that is done is
11 typically when distribution comes it's part quantity
12 related. When distribution is involved they sell it
13 in their stock typically.

14 And any demand that could serve that could
15 potentially support a project. A project could
16 theoretically also be a mix of direct from a mill and
17 parts supported from stock.

18 MR. SCHAGRIN: Commissioner Williamson, this
19 is Roger Schagrin. I'd just add, and it's based upon
20 the table 2-1 in the prehearing staff report which is
21 on table II-2, that clearly over this period of
22 investigation there was even greater growth in the
23 pipeline project or sales directly to end users who
24 are in this case almost always pipeline transmission
25 companies, than there was in the overall market. In

1 fact it almost doubled over the POI.

2 But as was stated earlier in the direct
3 testimony, just as there's going to be a reduction in
4 demand from the distribution side of the marketplace
5 as the rig count falls there is no question, you can
6 see it in the reports from some of the pipeline
7 companies who are really a fairly highly leveraged
8 group of companies borrowing money to build these
9 pipelines and then recouping their investment in the
10 pipeline project from later payments for shipping the
11 gas through, that that segment will also suffer a
12 downturn in demand. Because that's really dependent
13 on acquiring significant capital in advance by a
14 pipeline company to build a whole pipeline project.
15 So I hope that answered your question.

16 COMMISSIONER WILLIAMSON: It does. Thank
17 you for the additional clarification. In looking at
18 demand, I did hear a commentator recently say that
19 because the prices have fallen so fast, you know, they
20 rose very rapidly and then fell so fast, that we're
21 probably going to have another spike in prices some
22 time at a later point just because of the fact that
23 everybody shrunk so much and then the demand starts
24 going up the prices are going to fly up.

25 And that makes me wonder about future

1 projections and I'm also wondering, have we sort of
2 basically abandoned this goal of energy independence?
3 And how important is the credit crisis in the slowdown
4 in projects as opposed to the recession itself? I've
5 sort of mixed a lot there but maybe these are some
6 factors that I've been thinking about when I'm
7 thinking about demand.

8 MR. THOMPSON: Commissioner Williamson, I
9 think when you talk about, you're talking about
10 commodity prices and energy?

11 COMMISSIONER WILLIAMSON: Right, as it
12 relates to the demand for subject product.

13 MR. THOMPSON: Right. Yeah, the extreme
14 falloff does not give the industry time to adjust.
15 Just as \$50 oil is pretty good relative to the \$10 oil
16 that existed in the late '90s, you would argue this is
17 still a pretty good market. However because of the
18 growth when oil and natural gas were \$150 and \$13
19 respectively, I don't think you've given the industry
20 time to adjust and consequently that's where the boom
21 and bust cycles come from.

22 And consequently the knee-jerk reaction is
23 to start shutting things down when they see this kind
24 of drop, for two reasons, because of the extremity of
25 the drop and the second reason, because they don't

1 know where it's going to bottom out. As far as energy
2 independence is concerned I think moves like this take
3 away from that initiative. If you look at some of the
4 pushes out in the industry from T. Boone Pickens, from
5 windmills and others, that requires economic
6 conditions that are supported by higher energy prices.

7 And with the lower energy prices the
8 initiatives behind them fall off dramatically. On the
9 short term basis the natural gas play which has been
10 the biggest part of the oil and gas industry over the
11 past two to three years, it is shutting down quickly
12 with the falloff we've seen in this business. It's
13 just not economical for them to drill given the
14 unknowns in the marketplace right now.

15 COMMISSIONER WILLIAMSON: Thank you. Mr.
16 Vaughn?

17 MR. VAUGHN: Thank you, Commissioner. I'd
18 just like to add a short legal point here which is
19 that for purposes of your threat analysis the focus
20 here really is on what's imminent, you know what's
21 likely to happen in the fairly near term. So to the
22 extent you may see people talking about prices coming
23 back down the road, 2010, 2011, I mean arguably that's
24 probably not legally relevant to the issue of threat
25 because by that point we would have already suffered

1 whatever it was that we were going to suffer as a
2 result of the, you know, surge of Chinese imports that
3 would come into this market. So I just wanted to make
4 that one additional point.

5 COMMISSIONER WILLIAMSON: Thank you.

6 MR. SCHAGRIN: Commissioner Williamson, this
7 is Roger Schagrin. I think everyone on these panels
8 mostly because of their companies and their employees
9 would love to see a quick rebound in energy prices.
10 And we'd also like to see it on behalf of our pension
11 plans, most of which probably have investments in oil
12 and natural gas companies, certainly mine does. And
13 we've all been hoping for a quick rebound in
14 everything month after month since this crisis started
15 about a year ago.

16 But the reality just doesn't seem to be
17 there, and I would just echo statements made by
18 others, particularly Mr. Thompson. If the Obama
19 administration was able to really pursue energy
20 independence, it's pretty clear from the Pickens plan
21 and others that it's by shifting what powers our cars
22 from gasoline made from imported oil to natural gas
23 which we can extract here. With gas prices falling to
24 \$1.50 a gallon, there's less of an incentive than when
25 they were at \$4.

1 But clearly, you know what drives the market
2 for all the line pipe made by the producers in the
3 domestic industry is really drilling for natural gas.
4 And you know, shifting to natural gas in cars would
5 really help spread the market. It's just not clear
6 that would happen and it's probably not imminent. If
7 it were to happen it might be several years and
8 unfortunately several decades away, but I think we'd
9 all love to see it.

10 COMMISSIONER WILLIAMSON: And I guess to Mr.
11 Thompson's point that even if we didn't have this
12 credit crunch, the volatility and the price movements
13 does have an adverse impact.

14 MS. AVRIL: They're definitely doubling on
15 top of each other because you have the economics
16 changing for you in the industry where it's no longer
17 economic for some of the drillers to drill right now,
18 but the smaller ones can't raise capital either. So a
19 lot of them are highly leveraged and depend on the
20 capital to drill. Just like we depend on the capital
21 to make investments in our facilities so we're having
22 to make decisions today as to whether to invest in our
23 facilities to continue to make them globally
24 competitive or not. And so that's the threat that's
25 facing us today. Can we invest in those facilities

1 with a future that looks like we can get a return on
2 it.

3 COMMISSIONER WILLIAMSON: Okay, thank you
4 very much for your responses. Thank you, but my time
5 has expired.

6 CHAIRMAN ARANOFF: Commissioner Pinkert.

7 COMMISSIONER PINKERT: Thank you, Madam
8 Chairman. This -- my red light's already on.

9 (Laughter.)

10 COMMISSIONER PINKERT: There we go. This
11 may be a question more for the posthearing submission,
12 but why is it difficult for the domestic industry to
13 provide evidence of lost sales and revenues given that
14 your sales are made to distributors? I understand
15 that that's part of the explanation but I'm trying to
16 understand why that explains the difficulty.

17 MR. BARNES: This is Scott Barnes with TMK-
18 IPSCO. A big part of why that's difficult is because
19 we sell to the distributors and then the distributors
20 in turn will sell to their customers who we oftentimes
21 don't know who that is. And so, you're trying to get
22 it through two or three different sources of
23 information and oftentimes that doesn't come back to
24 us as to who we lost the order to.

25 COMMISSIONER PINKERT: Thank you. Is there

1 another comment on that issue?

2 MR. BALKENENDE: Roland Balkenende. Yes.
3 In addition to what has just said because that's
4 completely true, because of the tremendous price
5 differentials between our pricing and the pricing from
6 China, we are known that some customers that go in the
7 market when you say, did you lose one, it has meant,
8 we have not seen all the inquiries. So it is not
9 anymore the case, and it is through distribution or
10 through ourselves, they know it's the price
11 differential is 30 or 40 percent, we can say we lost
12 it or we were not even invited to bid because our
13 price was known in the industry to be higher. So that
14 is another reason why it's not that every time they
15 request us to submit bids.

16 MR. THOMPSON: I think given the commodity
17 nature of API produce with regard to distributors, I
18 think what they do is they designate a certain amount
19 of volume that they will buy from the Chinese material
20 and then they'll mix that in with our product. So
21 actually to give a specific example of how much we've
22 lost to them is difficult and then what they'll do is
23 they'll cost average the cost of all their product
24 from the highest price to the lowest price and sell
25 based upon that cost average.

1 So it's very very difficult to say, I lost
2 this order. But what you can do is look at specific
3 distributors, and I don't think the questionnaire
4 addresses it, but you look at specific distributors
5 and you can say, 20, 30, 40 percent of their volume
6 goes to the Chinese. And there are some out there
7 that are 70, 80, 90 percent. And so the specifics of
8 a lost order are very difficult because so much goes
9 into inventory. However on a macro sense as they move
10 into the marketplace there's not doubt their moving
11 that Chinese product in lieu of our domestic product.

12 COMMISSIONER WILLIAMSON: Thank you. Mr.
13 Price?

14 MR. PRICE: Commissioner Pinkert, if you
15 look at table 2-1, one of the things you'll see is
16 that U.S. producer shipments to distributors in '07
17 went down fairly dramatically. Now it may be
18 difficult to identify the exact sale that was lost,
19 and we've had long discussions about the lost sales
20 process and how the Commission does it, but the record
21 is pretty replete with evidence. In fact the domestic
22 industry sales into the distribution market went down
23 substantially at the time the Chinese were increasing
24 their sales into the distribution market.

25 COMMISSIONER WILLIAMSON: Now staying with

1 2007 for a moment, Mr. Conway, did the decline in
2 operating margins in 2007 have an adverse impact on
3 the workers or is that something more that you project
4 forward rather than see in the data for 2007?

5 MR. CONWAY: We're declining in this, but we
6 had kind of weathered our way through it and then
7 bargained a successor labor agreement. For us this
8 was kind of staggered around. Just recently in terms
9 of all this I had the Lone Star acquisition sort of
10 fallen under the U.S. Steel portfolio and so our most
11 recent one was done. Although the labor agreement
12 we've done within this company, this division of the
13 Lone Star acquisition is different than the flat-
14 rolled agreement. Sort of a recognition of the
15 particular pressures of this industry.

16 COMMISSIONER WILLIAMSON: Thank you. Mr
17 Cura?

18 MR. CURA: If I may add, 2007 was a year
19 where we had a shift down our accounts facility that
20 produces ERW line pipe. It was only in 2008 when in
21 fact we were able to back cap and bring the second
22 shift back. So yes, we were in fact -- that had a
23 direct impact on our people in 2007.

24 COMMISSIONER PINKERT: And Mr. Cura, just
25 looking at 2007 again, what do you attribute the

1 decline in operating income for the industry during
2 that period to?

3 MR. CURA: Well from, if you will, the
4 specific second perspective, 2007 was a year where we
5 saw us as being presented a competitive environment
6 where we were left out if you will for a substantial
7 volume as a result of the competitive landscape that
8 we confronted, in a moment that we were running a
9 company and running the company based on the
10 fundamental drivers as to how we need to do it. To
11 the extent that, as I was saying before, at one point
12 we felt sort of forced to reduce the shift down on the
13 specific production of the product that we're talking
14 about.

15 COMMISSIONER WILLIAMSON: In terms of that
16 competitive environment did you see it differently for
17 2007 than you saw for 2006? For the prior year?

18 MR. CURA: Well it's not for us to comment
19 on 2006 because we, as you may recall, we concluded
20 the Maverick acquisition at the end of 2006. It was
21 October, 2006. But what we experienced is 2007 as we
22 just described we were injured. We had a direct
23 impact on the people we employed. That situation
24 turned around in 2008 as we have described, we brought
25 the people back. And it's not a coincidence that we

1 managed, were able to bring the people back and the
2 preliminary determination introduced the effect that
3 we were talking about in terms of Chinese imports.

4 Now going forward as we have announced, we
5 see a situation where we are compelled again to reduce
6 a shift down, which is today driven by what we call
7 the macro environment which has been I think described
8 at length. Now if this other were to go negative I
9 think the effects are going to be a lot worse.

10 COMMISSIONER PINKERT: Then perhaps you
11 might wish to comment on what was distinctive about
12 2007 as opposed to the prior year, Ms. Avril?

13 MS. AVRIL: Well I have a similar problem in
14 the sense that we bought NS in 2006 in anticipation of
15 the pickup that we were seeing in the market in 2007.
16 So we bought that with the full anticipation that we
17 would take the Wilder facility up two more shifts from
18 where it was operating when we purchased it. In 2007
19 though, with the flood of the Chinese imports, it was
20 not economical for us to add those two shifts. Now in
21 2008 as those imports dropped off we did add those two
22 shifts and we brought that facility fully up. And now
23 with the economic crisis we've had to take those two
24 shifts back out again. So we have been going back and
25 forth depending on the imports and now the economic

1 environment and threat of imports as well.

2 COMMISSIONER PINKERT: Thank you. Now, this
3 may be more of a -- oh, I'm sorry. Mr. Schagrín, did
4 you have a comment? No. This may be more of a
5 question for the attorneys on the panel, but the
6 briefs in this case have discussed the financial
7 crisis at length. How does the financial crisis
8 factor into our present material injury analysis? I
9 understand that you argued that it adds to
10 vulnerability within the context of a threat analysis,
11 but for purposes of a present injury analysis, what is
12 the relevance of the financial crisis?

13 MR. HECHT: Jim Hecht. I guess we'd say in
14 a couple ways. One thing that we have suggested is
15 that given that the Chinese producers largely left the
16 market in 2008 that the law gives you the authority to
17 give less weight to the interim period. We also would
18 suggest that the law gives you discretion how much
19 weight in general to give to an interim period data as
20 opposed to fully year data.

21 And here we think given the dramatic
22 difference in market conditions that were reflected in
23 that interim period in terms of how high oil and gas
24 prices went and so forth compared to the conditions we
25 see right now, that's yet another reason we think to

1 allocate less weight in your material injury
2 determination to the interim period as opposed to the
3 full year data that you have.

4 COMMISSIONER PINKERT: Mr. Price.

5 MR. PRICE: I would add that, you know, what
6 we saw in this case frankly was the Chinese
7 essentially taking off the top of the market in '07.
8 Fundamentally had a major impact on ability to capture
9 the top in a boom and bust cycle. That is a material
10 impact that is currently there and it affects
11 investment, it affects ability to move forward on
12 plans, etcetera. So those are direct current impacts.

13 MR. SCHAGRIN: I know the red light's on. I
14 agree with my colleagues. I would just add that the
15 threat case is not just based on the anticipated
16 decline in demand because of the financial crisis and
17 the drop in oil and gas. The Chinese have shown
18 they've got this excess capacity, they ramp it up for
19 exports to U.S., they'll underprice even if demand
20 were to recover and we were to exit the financial
21 crisis, the threat from Chinese increased exports is
22 just as real and just as imminent. Thank you.

23 COMMISSIONER PINKERT: Thank you. Thank
24 you, Madam Chairman.

25 CHAIRMAN ARANOFF: Since Commissioner

1 Pinkert was talking a little bit on threat, I'll start
2 up with a threat question and then move back to a
3 present injury question.

4 In Maverick's brief, and I think this was
5 the only one of the four where I saw this argument, in
6 the context of threat the argument was made that a
7 large volume of line pipe that Chinese producers are
8 exporting to markets other than the United States are
9 tantamount to or should be treated by the Commission
10 the same as inventories that are available for export
11 to the United States, which struck me as an
12 interesting and somewhat unusual argument and so I
13 wanted to explore that further.

14 Is there any evidence in the record or that
15 could be provided of large inventory accumulations in
16 third countries? What specific countries?

17 If there are such inventories, is there any
18 evidence that you can provide even anecdotally that
19 once purchased by an importer or a distributor in a
20 third country these inventories have ever really been
21 re-exported to the United States?

22 MR. PRICE: First of all, on a macro basis
23 right now Chinese steel production is actually
24 exceeding its consumption and exceeding its export
25 level, so on a macro basis we're seeing very

1 significant inventory growth in China on steel in
2 general.

3 As you push down to the specific product
4 lines there's unfortunately not very good data in
5 China. Things are pretty opaque when you get into
6 some of the specifics in the Chinese market, but there
7 are massive inventories there. The fact is that
8 products move around. It's traded. API 5L is 5L, and
9 the Chinese incentive is to move product at this point
10 at almost any price.

11 There are current export offers from China,
12 according to *Metal Export* at incredibly low prices for
13 this product. They are trying to move anywhere they
14 can, and the produced inventory we have little doubt
15 will shift around.

16 If the market is open, it's not only the
17 current inventory that may be on the ground in China,
18 but also the inventory that we think that they can
19 move here from other countries if the operation --

20 CHAIRMAN ARANOFF: Well, let me just ask you
21 about that because the Chinese producers are not
22 affiliated, as far as I understand it, with
23 distributors in other major markets.

24 So once they've sold the product and it's
25 been shipped to a country other than the United States

1 it's no longer in the control of the Chinese industry
2 or the Chinese producers where that product ends up,
3 correct?

4 MR. PRICE: If a trader sees the
5 opportunity, however, they'll take advantage of the
6 opportunity, and it will be just as injurious either
7 way.

8 CHAIRMAN ARANOFF: Okay. I know this has
9 come up in other cases, this issue of sort of steel
10 tourism. You know, you put steel on a boat and then
11 you just kind of move it around the world.

12 I mean, even with freight rates down it
13 costs money to move steel say from China to Europe,
14 then change your mind and send it somewhere else.

15 MR. BARNES: Madam Chairman? Scott Barnes
16 with TMK-IPSCO.

17 You know, the Chinese supply line pipe into
18 Canada, and there's no restrictions on that product so
19 they can easily, as Mr. Price said, divert that
20 product into the United States.

21 The other thing as far as threat, and I'm
22 not the lawyer in this case, but the Commission ruled
23 affirmative on the Standard Pipe case and so the
24 ability for all its welded capacity in China to be
25 sold through standard pipe can now easily be diverted

1 through line pipe.

2 Of course, there's a filing in Europe as
3 well, which is just very broad, which again further
4 closes the market to Chinese producers, leaving them
5 to come to the United States.

6 CHAIRMAN ARANOFF: Okay. Mr. Vaughn?

7 MR. VAUGHN: Commissioner Aranoff, I mean,
8 we've spent a lot of time -- I know Alan has and we
9 all have spent a lot of time -- trying to research
10 this inventory situation because, as you know,
11 inventory is a statutory threat factor. It's
12 something that Congress has directed you guys to look
13 at for purposes of threat.

14 Now, the truth is your staff did the right
15 thing here, and they went to the people who had the
16 information on inventory and said here's a
17 questionnaire. Fill it out. Tell us what your
18 inventories are.

19 They have the information. They're the only
20 and best source for the information. They chose not
21 to give it to any of us and so we're doing what we can
22 in terms of conducting our research and trying to give
23 you the information you need under that threat factor.

24 But Congress, in my opinion, this is exactly
25 the situation that they put this provision in the

1 statute to address so that you guys can infer that the
2 fact that they didn't give you this information means
3 that the information would not have been helpful to
4 their cause.

5 I think that that would be very appropriate
6 for you to do, particularly in this context.

7 CHAIRMAN ARANOFF: Okay. Well, I take your
8 point, and I do think it's a slightly separate point,
9 though.

10 You know, I might be well within the bounds
11 of what's reasonable to take an adverse inference with
12 respect to Chinese inventories as a separate issue
13 from whether I might further conclude that inventories
14 of Chinese products held in third countries are
15 imminently going to be sent here, but it's a
16 relatively minor point so I'll move on.

17 In the presentation that Mr. Hecht started
18 us off with this morning and also in U.S. Steel's
19 prehearing brief you make the point that U.S. imports
20 of Chinese line pipe were significantly lower in the
21 second and third quarters of 2008 compared to the same
22 period in 2007, and you attribute this to the filing
23 of the petition in these investigations.

24 And so my question is do you think it's fair
25 to attribute the entire decline in subject imports to

1 the pendency of the investigation as opposed to
2 declining demand in the United States? Let me start
3 with that.

4 MR. PRICE: Let me start, and I'm going to
5 bring up one thing in the record which is confidential
6 and so I'm going to have to state it in this way,
7 which is I'm going to say the entire decline is
8 attributable to the pendency of this investigation.

9 You don't have to listen to us assert this.
10 Your questionnaire responses from the importers show
11 overwhelming evidence that it is the pendency of this
12 investigation and it's the cause of the decline of the
13 imports from China.

14 CHAIRMAN ARANOFF: Okay.

15 MR. HECHT: I would just agree with that.
16 That was the point I was going to suggest as well;
17 that I think that is a fair conclusion given what you
18 see in the confidential record.

19 I think also when you look at the demand
20 situation, it was reasonably flat from period to
21 period so I think that is the correct conclusion to
22 draw.

23 CHAIRMAN ARANOFF: Okay. You know, you're
24 looking at importer questionnaires. If you look at
25 the purchaser questionnaires only four out of 17 of

1 responding purchasers say they reduced their purchases
2 of Chinese line pipe because of these investigations.

3 How do I weigh what the importers told me
4 versus what the purchasers told me?

5 MR. CURA: Commissioner Aranoff, I would
6 just probably take the opportunity to make a business
7 comment from what we see of these costs and so on.

8 When you compare the way line pipe has been
9 saved, comparing these couple of quarters compared to
10 other product lines that are coming from China that
11 are industry related, specifically OCTG where there
12 has been no case filing or anything like that, I think
13 from a business perspective we are led to really
14 conclude that there is a strict reason why imports
15 came down is because of the filing of this petition.

16 While that wasn't there, we've seen
17 explosive increases. You only need to look at the
18 OCTG records to verify that.

19 MR. PRICE: This is Alan Price. I'll
20 actually add one other point to it.

21 Not only do you have to look at the OCTG
22 record, but if you look at the welded line pipe
23 exports from China globally it's not like they
24 contracted from the global market. They just
25 continued to push out everywhere they could, every

1 kind of volume they could in any market they could.

2 And so you see them very interested in the
3 line pipe markets throughout the world trying to move
4 everything they can. The difference was this case.

5 MR. SCHAGRIN: Chairman Aranoff, Roger
6 Schagrin. While it's not that heavily on the record,
7 there are references I know in our brief and others'
8 about this issue.

9 It certainly is in this Commission's mind
10 that this past summer -- it seems so long ago, but it
11 was just the summer of 2008 -- we spent a full day
12 here at the Commission in the Circular Welded Pipe
13 case.

14 We had a lot of participation by Respondents
15 and by importers who were very concerned about
16 critical circumstances. I would say that what
17 occurred with importers in the Circular Welded Pipe
18 case and the huge amount of bonds they had to post
19 under critical circumstances had a direct impact in
20 this case.

21 I mean, importers of Chinese pipe, and many
22 import a full range of different pipe and tube from
23 China. They knew. Wow. Case filed. Commerce is
24 going to find huge margins, and we don't want to get
25 stuck with bonds or cash deposits.

1 So I think there was a direct relationship,
2 and some of that is borne out by the references made
3 in earlier responses to the questions.

4 CHAIRMAN ARANOFF: Okay. Well, I appreciate
5 all those answers.

6 If there's anything anyone wants to add in
7 posthearing just walking me through the numbers so
8 that I can feel confident that what we're seeing is
9 the result of the case as opposed to the overall
10 decline in demand, that would be very helpful.

11 Since my light is red, I'll turn to Vice
12 Chairman Pearson.

13 VICE CHAIRMAN PEARSON: Thank you, Madam
14 Chairman.

15 You've made the argument that line pipe
16 production is continuing to grow in China. Do you
17 have any information regarding the demand for line
18 pipe in China, perhaps something that would have been
19 gleaned from the Department of Commerce project that
20 you could share with us?

21 MR. SCHAGRIN: This is, Vice Chairman
22 Pearson, Roger Schagrin.

23 Of course, in the Commerce Department
24 proceedings in a China nonmarket economy case, unlike
25 a market economy case, they don't give information on

1 home market sales, and therefore there's not even a
2 public version of what total home market sales would
3 be because we don't use their home market sales prices
4 or volume.

5 However, what we do know, and we can provide
6 information in the posthearing brief, is that China is
7 a fairly small oil and gas producer with many fewer
8 rigs -- I think it's probably less than 100 rigs --
9 operating in China.

10 So while they may be building or providing
11 material for say a large pipeline to bring gas from
12 Russia into the coast of China or from their oil and
13 gas fields in western China over to the coast, in
14 terms of the demand for small diameter product that
15 would be used in gathering oil and gas from their
16 wells it's very, very small compared to the type of
17 demand we have in the U.S. market, and that is
18 something we can elucidate on further in the
19 posthearing.

20 VICE CHAIRMAN PEARSON: Okay. I'll get to
21 you in a minute, Mr. Vaughn, but let me just inquire.

22 I have the impression that China does not at
23 this point have a highly developed distribution
24 network for natural gas to individual businesses or
25 homes. I mean, it's a very different situation than

1 in the United States where our distribution is
2 relatively mature.

3 Are we seeing investments in distribution to
4 homes and businesses that, frankly, are going to
5 require lots and lots of tons of line pipe?

6 MR. SCHAGRIN: Probably not, but there is
7 investment in infrastructure and in development of
8 these kinds of processes in China.

9 But given that they're not a natural gas
10 oriented economy -- they bring in mostly LNG rather
11 than drilling it themselves -- and of course most of
12 their industrial development need for gas is already
13 in the coastal cities where the LNG comes in, so it
14 will be nothing like the United States where we're
15 moving gas from the southwest to the northwest, et
16 cetera.

17 So will there be growth as the Chinese
18 economy grows? Yes, but certainly not enough to
19 absorb their supply.

20 In I think both OCTG and line pipe China
21 probably has two to three times as much capacity as
22 they have home market demand, and it's impossible in
23 any real and imminent period, even with growth in
24 Chinese demand, for Chinese demand to come close to
25 catching up to their potential supply, so we would

1 think that growth is going to still be limited
2 starting at a fairly low point.

3 VICE CHAIRMAN PEARSON: Mr. Vaughn?

4 MR. VAUGHN: Yes. I mean, again just to
5 reiterate, these are questions that the Chinese could
6 have answered and they chose not to, but again,
7 looking at the *World Trade Atlas* data, for example,
8 and going back to what Mr. Schagrin said, the staff
9 report does indicate that these *World Trade Atlas* data
10 export numbers for China are understated.

11 We can tell that by comparing them to our
12 import numbers, but even there the trend is
13 remarkable. In '05 they show exports of 81,000 tons,
14 then to 134,000 in '06, then to 344,000 in '07, and
15 for the first nine months of this year 542,000, so
16 these figures show pretty conclusively I think that
17 production and supply within China far exceed and is
18 far outpacing home market demand.

19 MR. CURA: Mr. Pearson, I'd just like to add
20 a comment from our own experience.

21 Every time we've seen the Chinese Government
22 concerned about building the infrastructure, concerned
23 about meeting their own internal demand to satisfy
24 their own requirements, they created export taxes.
25 They made very clear that they were going to support

1 the buildup of manufacturing structures to, if nothing
2 else, support the domestic development.

3 We're seeing this in the steel industry to
4 the extent that they put up an export tax on
5 everything but pipe where they not only didn't put an
6 export tax, but they created an export rebate, which
7 without the data led us strongly to believe that there
8 is a conscious decision to incentivize the export of
9 the welded line pipe that we're talking about.

10 VICE CHAIRMAN PEARSON: Point well taken.
11 Mr. Price, did you have anything? Okay.

12 My next question. For purposes of present
13 injury, what impact should the withdrawal of the
14 petition on Korea have on the Commission's Bratsk
15 analysis?

16 Does the relegation of imports from Korea to
17 nonsubject status make it more likely that nonsubject
18 imports could have replaced subject imports during the
19 POI?

20 Mr. Hecht?

21 MR. HECHT: I think as we talked about
22 before, when you look at the situation with Korea --
23 not that it was not a competitive factor in the
24 market. Obviously we think it was, but we think China
25 was clearly a unique source of injury and was clearly

1 the biggest problem we saw in the market.

2 This is something we'd be happy to walk
3 through in the posthearing too to analyze, but we do
4 not think however you read the current Bratsk
5 precedent in terms of what you're supposed to look at,
6 we don't think you're going to find that that would
7 have denied any benefit to the domestic industry.

8 Again, if you look at the pricing, the size
9 of that industry, how quickly it went up and then
10 again looking at the interim period where we actually
11 saw the benefit essentially as a test case to see the
12 reduction of Chinese imports in the market, we think
13 you have an overwhelming case that this was a unique
14 source of injury to the domestic industry.

15 VICE CHAIRMAN PEARSON: Right. But the
16 reality is that taking Korea from subject to
17 nonsubject shifts the numbers a bunch, so help me to
18 understand in the posthearing what --

19 MR. HECHT: Happy to, but again if you look
20 at the pricing there is a real differential there.

21 We can only talk about the AUV here. If you
22 look at the trends of how they've gone up I think even
23 vis-à-vis Korea that it's very clear once again that
24 China really was a different source.

25 VICE CHAIRMAN PEARSON: Okay. And having

1 just asked a precedentiary case, then let me do the
2 next thing and ask is this fundamentally a threat
3 case, or do you think that it's really appropriate to
4 give a lot of consideration to present injury?

5 I ask that in part because my impression of
6 your prehearing briefs were that they're rather
7 heavily weighted towards threat issues and not so much
8 focused on present injury, so am I to kind of take
9 from that that you are viewing threat as the key case
10 to be made here?

11 MR. SCHAGRIN: Vice Chairman Pearson, Roger
12 Schagrin.

13 I would say that that is not the case, but
14 what is clear from all the prehearing briefs and from
15 our presentation today is we do recognize that in
16 order for the Commission to make an affirmative
17 finding of present material injury that the key to
18 that is using the statutory framework to give less
19 weight to interim 2008 because of the decline in the
20 imports caused by the pendency of the investigation.

21 I would say there's quite a long list of
22 cases in which the Commission has done that and rather
23 similar circumstances to this case, whether it was
24 Certain Ceramic Station Post Insulators From Japan or
25 Brown Aluminum Oxide From China or Light-Walled

1 Rectangular Tubing or Certain Lined Paper.

2 The Commission has seen lots of cases in
3 which the interim period was really good, and you
4 would say well, I couldn't find injury if I look at
5 injury based on this interim period, but I'm going to
6 disregard this interim period and focus on the period
7 before the petition was filed because we've had this
8 big dropoff in imports.

9 So that is clearly I think from all of our
10 perspectives, that's the key to our present injury
11 case is that you focus on '05 to '07 instead of '08
12 because the reason for the improvement in this
13 industry in '08 is because the Chinese left the
14 market.

15 VICE CHAIRMAN PEARSON: Mr. Hecht?

16 MR. HECHT: I would just confirm certainly
17 from our standpoint we think you have an overwhelming
18 case on present injury and an overwhelming case on
19 threat of injury here.

20 You know, you have to analyze the
21 performance of this industry in the context of the
22 business cycle. I think what you see on the record
23 here is that the Chinese were able to cause very
24 significant harm to this industry even during a period
25 of record demand in 2007.

1 The law does give you the discretion to
2 reduce the weight of what you saw in the interim
3 period given the fact that the Chinese imports were
4 reduced in the market and so we absolutely would not
5 concede that you should not look at present injury
6 here. We think we have a very strong case on present
7 injury as well.

8 VICE CHAIRMAN PEARSON: See, well, I at
9 least understand now why I'm overwhelmed by the record
10 because it's overwhelming both for present injury and
11 for threat. Mr. Price, did you have anything?

12 MR. PRICE: For the record, I concur with my
13 colleagues here. We'll address it more completely in
14 the brief, in the posthearing brief.

15 VICE CHAIRMAN PEARSON: Okay. My time has
16 expired. Madam Chairman?

17 CHAIRMAN ARANOFF: Commissioner Okun?

18 COMMISSIONER OKUN: Thank you, Madam
19 Chairman. I wanted to return to the product-shifting
20 argument, and I know you've had a chance to respond to
21 a couple of questions. I just wanted to make sure I
22 understand, in terms of product shifting, is the
23 strongest argument that the presence of orders or
24 investigations in other countries will lead to product
25 shifting versus sometimes, in these pipe cases, we

1 talk about which market segment do these guys really
2 want to sell into? Is it OCTG? Is it line pipe? Is
3 it welded pipe? There are these incentives.

4 So, in a down market, I just wondered if
5 that has shifted, or whether we should pay attention
6 to that, in terms of product shifting.

7 MR. PRICE: Since we presented, I think,
8 fairly extensive product-shifting arguments in our
9 brief, I'm going to say it's all of the above. In
10 this case, you have issues of a massive amount of
11 capacity in China that is export oriented that is
12 losing other markets -- that's number one -- because
13 of trade cases being filed.

14 Two, with declining demand in China, which
15 is actually quite significant that we haven't hit so
16 much in this hearing, but having been to Beijing
17 recently, it's pretty apparent that there is a pretty
18 significant decline in demand in China. They have
19 every increased incentive to export.

20 Also, you have an ability to product shift
21 from product to product. Now, there has been some
22 discussion of shifting to OCTG recently, but the very
23 article, for example, that talks about a shift to OCTG
24 says it was because of this case that they moved some
25 product that would have come in as welded line pipe to

1 OCTG, and if there is no order, they will move right
2 back.

3 The bottom line here is that the Chinese
4 have such overwhelming capacity in these welded pipe
5 products, in these pipe products generally, both
6 welded and seamless, in reality, that the problem here
7 is of such a massive magnitude that we are seeing
8 systematic sets of trade actions in Australia, the EU,
9 Canada on welded pipe, on OCTG welded in Canada.

10 These problems are so great and so vast, and
11 we see the explosive growth in all of these products
12 as being such a problem that the world pipe industry
13 is collapsing under the pressure of these overwhelming
14 trade flows, and, in a declining environment which
15 we're in, it will take even a more modest volume to
16 have devastating impacts on the industry.

17 COMMISSIONER OKUN: Mr. Schagrín?

18 MR. SCHAGRIN: Commissioner, I think the
19 best way to answer your question is looking at Table
20 7-2 of the prehearing staff report. While this
21 information came from other investigations before the
22 ITC, since we didn't get cooperation in this
23 investigation, and may only represent five to 10
24 percent of the Chinese welded pipe industry, it's
25 still very illustrative because you see, for the data

1 points that are public, small-diameter line pipe and
2 circular welded pipe, a shift between '06 and '07
3 where circular welded pipe is declining in terms of
4 production, and line pipe is increasing.

5 Then, of course, we all know that what
6 really hit the Chinese in circular welded pipe was in
7 '08 when they were hit by our dumping orders, by the
8 Canadian dumping orders, by now the EU investigation,
9 and for this set of producers, about 85 percent of
10 their total production was of circular welded pipe and
11 almost 15 percent of line pipe.

12 So that's a tremendous amount of circular
13 welded pipe production, a major share of which can now
14 no longer be shipped to the United States of America,
15 to Canada, or to Europe, and shifting even a quarter,
16 a third, a half of that circular welded pipe
17 production into small-diameter line pipe and shipping
18 it to the United States will just have devastating
19 effects.

20 So I think the strongest threat argument is
21 based on the product shifting from circular welded
22 pipe to small-diameter line pipe. We believe that
23 this really is representative, even though it's a
24 small slice, of the Chinese industry because all of
25 the major producers of circular welded pipe in China

1 who are exporting to the U.S. who can no longer export
2 have API licenses to make the subject product.

3 COMMISSIONER OKUN: Okay. Any other
4 comments on that? I appreciate that further
5 information.

6 Okay. Ms. Avril, in your testimony, you had
7 mentioned -- I think you talked about your order book
8 for 2009, and I know, in the briefs, there is
9 information, but, again, this is, I guess, a
10 posthearing request, which is, again, the world has
11 changed a lot since we issued our preliminary
12 determination.

13 To the extent your companies have revised
14 projections in light of the financial crisis and oil
15 and demand projections from the oil and gas and the
16 independents, if you could just make sure that's on
17 the record and in one place for us to see, it would be
18 helpful.

19 MS. AVRIL: That's fine. We'll provide
20 something in posthearing. It's a very fluid
21 environment, so it's changing daily. It's very
22 rapidly changing.

23 COMMISSIONER OKUN: I understand. I just
24 feel like it's a little bit static, if we have the
25 projections and information that was prior to things

1 changing dramatically. So there is an understanding
2 that it is fluid, but if there is anything that the
3 companies have developed in response to the current
4 situation, I would appreciate seeing that.

5 MS. AVRIL: Okay.

6 COMMISSIONER OKUN: Let's see. I think I've
7 covered everything that I wanted to get done today, so
8 I appreciate all of your responses. It's been very
9 helpful. Thank you.

10 CHAIRMAN ARANOFF: Commissioner Lane?

11 COMMISSIONER LANE: Mr. Hecht, I'll start
12 with you. You were going to respond to my last
13 question, which I hope you remember what it was
14 because I certainly don't and I do remember that you
15 wanted to answer it.

16 MR. HECHT: I do, and thank you for that
17 opportunity. I wanted to go back. You had asked
18 about the Question 3-7 in the questionnaire, which I
19 did not have in front of me, but I do think I now see
20 the source of the confusion, and I think we can
21 address publicly what the issue is.

22 That question goes to the issue of whether
23 you received inputs from a related firm. We filed
24 this questionnaire on behalf of the United States
25 Steel Corporation, the broader entity, and interpreted

1 that to mean a related firm other than the entity that
2 filed the questionnaire response. That's why we
3 answered that question the way we did.

4 We have discussed with staff, I think, at
5 length and also put in our brief and in our comments
6 on the questionnaire what the facts are with regard to
7 U.S. Steel's production, the fact that they do source
8 hot rolled internally, and the fact that we have
9 accounted for that at cost, in accordance with the
10 instructions of the questionnaire.

11 We do think that you should take a look at
12 that issue, however, because we think it is
13 misrepresentative. Obviously, it presents the issue
14 of double-counting, in terms of hot rolled profits,
15 but also it's not consistent with how the company
16 itself evaluates its segment performance in the
17 tubular area. So I think it really does give you a
18 distorted view, particularly in the interim period.

19 COMMISSIONER LANE: Okay. Thank you.
20 Considering how long it takes to answer all of those
21 questionnaires, aren't you glad that people read them?

22 MR. HECHT: Absolutely.

23 COMMISSIONER LANE: Okay. I have some other
24 questions. Some of you stated that there has been a
25 15-to-20-percent decline in the rig counts. Has there

1 been a corresponding decline in permits also because I
2 know sometimes that the rig count and the permits are
3 not always consistent, so what can you tell me about
4 the status of permits at the present time?

5 MR. ALVARADO: I'll start with -- I think
6 some of the projections were for a reduction of 15 to
7 20 percent. Mr. Fisher specifically said that, for
8 their planning purposes, they are looking at a 15-to-
9 20-percent reduction.

10 Looking at the market overall and some of
11 what's been published, we could conclude anything from
12 10 to 40 percent. We really don't know where it's
13 going to pan out.

14 Presently, although there has been a drop in
15 the rig count, as many as 50 a week ago, the drilling
16 permit data we can provide you in the posthearing
17 brief, I don't think you'll see it quite as
18 dramatically as we're projecting, but, certainly,
19 there would be a downward trend as EMP companies start
20 making plans to not drill.

21 So they would concurrently not be filing for
22 permits to drill. That number will come down, but we
23 can give you that information in more detail. Again,
24 most of this is a projection. Through the fourth
25 quarter, rig count has remained fairly high until

1 recently.

2 COMMISSIONER LANE: Okay. Thank you. The
3 gentleman in the back, could you identify yourself?

4 MR. BARNES: Scott Barnes with TMK-IPSCO.
5 Again, rig counts were projections of activity.
6 Although the rig count did drop 51 last week, it may
7 be the start of that decline.

8 You are correct, or, at least, that's the
9 way we look at it, that permits are a leading
10 indicator of future activity, and the on-shore
11 permits, which is the one that we track because most
12 of the business we are successful at getting is on
13 shore, has already started to decline.

14 Weekly averages of the rig weekly permits
15 for on shore peaked back in June at 1,922 permits per
16 week, and the latest data I have is that, for the week
17 of November 14th, it was at 1,289, so that's a leading
18 indicator. Fewer permits that are granted means fewer
19 rigs and fewer wells that will be drilled.

20 COMMISSIONER LANE: Okay. Thank you. Now,
21 can you tell me, are the production tax credits still
22 in effect, or have those expired?

23 MR. ALVARADO: Are you talking about energy
24 production tax credits?

25 COMMISSIONER LANE: Yes.

1 MR. HECHT: We would be happy to look into
2 that and get back to you.

3 COMMISSIONER LANE: Okay. Thank you.
4 Historically, at what retail price per MCF for natural
5 gas do you see an increase in drilling?

6 MR. ALVARADO: Well, I'm sure others would
7 want to comment on this as well, but this goes back to
8 some of what we call in conventional drilling
9 "directional drilling" that's really been the source
10 of the technology that's made gas drilling more
11 beneficial, beneficial to the degree that, although
12 it's a higher cost as prices have gone up, the EMP
13 companies are able to recover those costs.

14 I would use, in rough terms, that about \$5
15 per MCF. Anything below that would be a challenge to
16 be profitable in the unconventional drilling
17 environment of the shale plays that are so popular in
18 the United States today. Moving north of that, and,
19 again, this is a variant that changes, depending on
20 the overall cost structure of an EMP company, but some
21 of the more expensive shale plays, and I would use
22 Hainesville or, more specifically, Marcellus Shale in
23 Western Pennsylvania where there is no infrastructure,
24 where infrastructure has to be developed, those costs
25 will certainly be higher.

1 The companies that would be best capable of
2 answering that question would be the EMP companies
3 themselves, and the mere fact that, at current rates,
4 six and a half -- we'll call six to seven -- there
5 have been significant announcements of cutbacks or
6 curtailment in EMP budgets, would suggest that we're
7 at kind of a break-even point.

8 COMMISSIONER LANE: Okay. Thank you.

9 MR. ALVARADO: I don't know if others would
10 like to comment perhaps.

11 MR. BARNES: Scott Barnes with TMK-IPSCO. I
12 agree with everything that Joe has said and only would
13 elaborate that prior to the beginning of the financial
14 crisis, most of the oil and gas companies were looking
15 at their budgets for 2009 and using the base case of
16 around \$70 for oil and around \$6 to \$7 for gas, and,
17 of course, oil, last week, ended at \$49, and gas is
18 down below six. So this is what's led many of these
19 companies to revise their plans for next year and cut
20 their budgets 20 percent in most cases or more.

21 COMMISSIONER LANE: Okay. Thank you. Now,
22 I don't think that this question has been answered,
23 but if it has, just tell me.

24 As the staff report indicates, on page III-1
25 at footnote 1, there has recently been substantial

1 restructuring of the line pipe industry, beginning in
2 2006. Can you give me some insight as to what led to
3 the changes, and looking at these mergers and
4 acquisitions alone, what impact have they had on the
5 condition of the domestic industry? For example, has
6 there been a significant increase in efficiency?

7 MR. ALVARADO: At least, I can start from
8 the U.S. Steel perspective. The fact that U.S. Steel
9 acquired Lone Star was intended to broaden the product
10 range, the size range and product capabilities that
11 U.S. Steel was offering, to include ERW as well for
12 OCTG, as well as to expand the size, range,
13 capability, and market presence.

14 So there are a number of factors that went
15 into the decision to consolidate the industry that
16 really were to the benefit of the existing tubular
17 assets of U.S. Steel, which were principally seamless,
18 although there was some ERW capability at the time.

19 So it was, in effect, to grow the business,
20 to take advantage of some of the upstream synergies
21 that were related to supporting ERW with hot-rolled
22 coil, that drove the decision, from U.S. Steel's
23 perspective. I would turn to the others to talk about
24 their own situations.

25 COMMISSIONER LANE: Okay. Thank you.

1 MR. CURA: Now, from a Maverick Tube
2 perspective, I would just like to probably repeat
3 something that we have said in the past. We, in 2006,
4 saw the opportunity of integrating the company, which
5 is precisely designed to service the vast majority of
6 what this market consumes, given the nature of the oil
7 and gas formations.

8 Now, with respect to efficiency and how the
9 plants are doing, I would like to report that we have
10 increased efficiency and would not be, I think,
11 comfortable in sharing some specifics today, but I
12 would be very happy to file within our posthearing
13 notes the investment plans that we have announced to
14 continue the improvement throughout the industrial
15 system.

16 COMMISSIONER LANE: Okay. Thank you.

17 MS. AVRIL: I can speak to IPSCO's
18 acquisition of Van Ness Group. Strategically, when we
19 are considering how to grow the business, we looked
20 very long and hard at whether we build a new facility
21 or whether we acquire an existing facility. The
22 economics were such that we couldn't justify building
23 a new facility because of the cost involved versus the
24 types of returns we expected in the marketplace.
25 However, with NS, they had an ERW facility in Wilder

1 that was only 50 percent utilized, so we felt that we
2 could acquire it and make enhancements to it in order
3 to optimize those operations.

4 We were in the process of doing that, and,
5 again, this was with the prospect that 2007 would be a
6 good, strong line pipe market, but that whole market
7 then was taken away by the Chinese imports in 2007.
8 So we advanced a little bit more slowly with those
9 operations, and then, with 2008, that's really when we
10 were kicking in, and we did up the shifts and became
11 much more efficient in 2008 as those Chinese imports
12 did exit the market.

13 So now again we are facing now the economic
14 environment where we are ramping it back down because
15 of the sales decline and the market conditions today.

16 COMMISSIONER LANE: Okay. Thank you. Thank
17 you, Madam Chairman.

18 CHAIRMAN ARANOFF: Commissioner Williamson?

19 COMMISSIONER WILLIAMSON: Thank you, Madam
20 Chairman.

21 This is for anyone who can answer it.
22 Reported subject imports are highly concentrated in
23 Grades A to X-56. This is for Table IV-5. What
24 effect, if any, do subject imports have on your sales
25 of Grades X-60 and above?

1 MR. BALKENENDE: This is Roland Balkenende.
2 Even though the products that come in from China --
3 many of the commodity products, up to X-56, the
4 majority is Grade B and X-42 -- the direct impact we
5 see is the price components because the industry sees
6 the Grade B product as the base mark for pricing.

7 So even though the other grades, the X-60,
8 may not come in, the base mark has been set, and so,
9 as a consequence, it puts tremendous price pressure on
10 the other products.

11 COMMISSIONER WILLIAMSON: Thank you for
12 that. Does anyone want to add anything to that?

13 MR. SCHAGRIN: Commissioner Williamson, this
14 is Roger Schagrin. While there are no witnesses here
15 today from ACIPCO and Stupp, they did join as parties
16 in this investigation as companies that really focus
17 almost exclusively their sales in the X-60-to-X-70
18 range, and, of course, the reason they are here is
19 because they see a real and imminent threat of injury.
20 They are well aware of their Chinese competitors.

21 They know that companies like Bauschan,
22 Tiengin Pipe Company -- these are parts of integrated
23 facilities in China. They are making X-60-to-X-70
24 coils now. Their pipe mills are capable, and there is
25 no question that, as we've seen in product after

1 product from China, it only takes six months, a year,
2 18 months, for the Chinese to come up that quality
3 curve and be accepted in the higher grades.

4 So there is no doubt that while the Chinese
5 have not been here in the period before we filed the
6 case in these higher grades that they have the
7 capability and that they will be here in large
8 quantities in those higher grades if the Commission
9 were not to make an affirmative determination.

10 COMMISSIONER WILLIAMSON: Thank you. On
11 page II-12 of the staff report, it lists producers in
12 the United States and several foreign countries who
13 are on a purchasers' approved manufacturer list. Are
14 any Chinese producers on any provided manufacturer
15 lists? Does anyone know?

16 MR. SCHAGRIN: Let us answer that in the
17 posthearing brief. I don't know the answer to the
18 question now. It's something I think we can research
19 and put in our posthearing briefs, Commissioner
20 Williamson.

21 COMMISSIONER WILLIAMSON: Thank you. Mr.
22 Vaughn, do you have something?

23 MR. VAUGHN: Thank you, Commissioner
24 Williamson. I would just also like to make the point
25 that, on that same page, only four of the 19

1 responding purchasers reported having an approved
2 manufacturer's list. So, you know, almost three-
3 quarters of the people who responded didn't have that
4 sort of list, and, in fact, I think if you go through
5 the other factors on the purchaser questionnaires,
6 it's pretty clear that, for the most part, what the
7 purchasers are most concerned about is, does it meet
8 AP specs, and is it sold at the lowest price? Under
9 those circumstances, China would be very competitive.

10 So, regardless of the situation, we will
11 look into the approved manufacturers' list as well,
12 but, regardless of that situation, it's pretty clear
13 that a lot of purchasers who are out there are open
14 and willing to buy Chinese pipe.

15 COMMISSIONER WILLIAMSON: Thank you for that
16 answer.

17 I'm going to follow up on Commissioner
18 Lane's series of questions. Tables Z-1 and E-2 show
19 that U.S. producers performed substantially better on
20 operations owned prior to 2005 than operations
21 acquired since 2005. Does this indicate that the
22 process of acquiring and integrating operations played
23 a role in their worsening industry profits?

24 MR. PRICE: Alan Price, Wiley Rein.
25 Absolutely not. Actually, we did a fairly extensive

1 analysis of this in our prehearing brief, and, in
2 fact, in the '07 period, the financial trends of the
3 acquired and unacquired operations follow pretty much
4 the exact same pattern here. So they may start from
5 different benchmarks, but the bottom line was that
6 they all had the same calamitous collapse in operating
7 profit margins in '07.

8 COMMISSIONER WILLIAMSON: Okay. Does anyone
9 else want to address that? Mr. Hecht?

10 MR. HECHT: Yes. Thanks. I agree, we did
11 address this issue in some real detail at the
12 preliminary, and I think the three commissioners who
13 voted for present material injury specifically found,
14 with respect to U.S. Steel, that the restructuring did
15 not explain the performance that you saw in 2007.

16 The one point I would add, and we're happy
17 to walk back through to provide a detailed answer, how
18 those restructurings were accounted for is that the
19 change in accounting method, which I discussed with
20 Commissioner Lane, that did have an impact on our
21 results, you know, going from valuing the hot-rolled
22 steel in terms of a market price versus cost, and we
23 think, again, that is an issue to look at and to keep
24 in mind when you evaluate our performance in the
25 interim period.

1 COMMISSIONER WILLIAMSON: Thank you.

2 Mr. Conway, I was wondering where some
3 negotiations may stand that are upcoming with the
4 members of this industry, and I'm also particularly
5 wondering about the role of health costs, in terms of
6 competitive conditions, since we see that as being a
7 factor in some of the other industries, and I'm not
8 sure what you know about health costs for workers in
9 China as to relevance. I would be interested in --

10 MR. CONWAY: I don't know that I can
11 directly compare the Chinese health costs. I know
12 that it's the single largest obstacle we face at every
13 bargaining table we go to. It's as true of these
14 particular manufacturers as it is of the rest of the
15 industry as well, so it's just an overwhelming -- to
16 the tune of regularly 10-percent-per-year escalation
17 is what we build in. We've sort of had to learn a lot
18 more about healthcare coming out of the last collapse
19 of steel, when the union was compelled to take over,
20 through the VEBA funding mechanisms, a lot of
21 healthcare for those retirees.

22 So we now sit with our own insurance
23 companies doing the best we can to run them. I think
24 we're as good as any insurance company out there,
25 frankly, but, typically, 10 percent is what we see

1 going on, and it's the same discussion we have at the
2 table. In terms of the restructuring that we've done
3 here, in particular, the U.S. Steel -- one of my
4 responsibilities is the U.S. Steel bargaining that's
5 in my portfolio. So we have just accomplished that
6 labor agreement and, at the same time, accomplished
7 what we refer to as "Lone Star Agreement," the U.S.
8 Steel Tubular Products Agreement.

9 It's a little bit different. It's not the
10 flat-roll agreement. It recognizes that it's in this
11 market, but those healthcare costs are the same. The
12 pension obligations and everything else are the same,
13 and we're doing what we can to restructure the
14 workplace. We went in and took out the old job
15 structure system that those of you will remember the
16 changes that we made in the flat rolled where we had
17 32 different jobs; we compressed them down to six,
18 and, particularly, in these East Texas operations,
19 we're going through that process now. People are
20 relearning those jobs and expanding those jobs.

21 So we don't have anything, in particular, on
22 the horizon here, but we are sort of in the
23 implementation stage of this agreement, which was
24 accomplished just months ago.

25 COMMISSIONER WILLIAMSON: So, in a sense,

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1 the industry is in a much better competitive position
2 than in the earlier time.

3 MR. CONWAY: We have done the things that we
4 think we need to do, you know, in a responsible way to
5 be able to compete in this industry and be able to
6 compete in what we've come to understand is sort of a
7 constant onslaught of imports and other pressures.

8 So, here, we have, to the degree that you
9 can think of the pipe or tube industry or any of what
10 might be referred to as the second- or third-tier
11 companies, away from U.S. Steel and Arcelor and the
12 bigger ones, we continue to push that model down and
13 that restructuring down, and have done so here as
14 well.

15 COMMISSIONER WILLIAMSON: Thank you for that
16 clarification. I was wondering about that.

17 Just a quick question. Have any of the
18 companies turned away customers recently out of
19 concern about their ability to pay? Mr. Cura?

20 MR. CURA: The short answer: No. We're
21 working with our customers. We're trying to find
22 solutions for the problems, but now we're supporting
23 our customers the way we have.

24 MR. BARNES: Scott Barnes with DMK-IPSCO. I
25 can tell you that we are watching the credit limits

1 much more closely now.

2 MR. ALVARADO: The same would apply here.
3 We can give you specific details in the posthearing
4 brief, not to get into that here.

5 COMMISSIONER WILLIAMSON: Okay. Thank you
6 for those answers. Thank you.

7 CHAIRMAN ARANOFF: Commissioner Pinkert?

8 MR. PINKERT: Thank you. I just have one or
9 two more questions for this panel. The first one
10 might be more appropriate for the posthearing
11 submission, but I'm wondering if you can tell me
12 whether the increase in market share of the subject
13 imports from 2006 to 2007 came at the expense of
14 nonsubject imports.

15 MR. PRICE: We'll address that more
16 completely in the posthearing brief, but no matter how
17 we look at it, there was a massive increase in subject
18 imports in 2007, and there was a very substantial
19 effect on profitability and effect on the cost-price
20 squeeze in that period.

21 MR. HECHT: We would be happy to address
22 that further as well. I would note that, even in
23 2007, the industry's market share was dramatically
24 below what it had been in 2005.

25 COMMISSIONER PINKERT: Thank you. Mr.

1 Vaughn?

2 MR. VAUGHN: I was also just going to point
3 out that, obviously, a lot of what happened in those
4 seven took the form of price effects, as well as
5 volume effects, because that was really the critical
6 difference, I think, if you look at the numbers,
7 between '06 and '07.

8 Even in '06, you could see that the increase
9 in operating income is not keeping pace with the
10 increase in demand, but, from '06 to '07, what's
11 happened that's so significant is that the industry is
12 no longer able to keep its prices in pace with costs.
13 There is a fairly significant cost increase from '06
14 to '07. Prices are not able to move in line with
15 that. That's why you see the big operating income
16 plunge from '06 to '07.

17 So, yes, there were some volume effects, and
18 we've talked about those, but the bigger impact was
19 probably on the pricing side.

20 COMMISSIONER PINKERT: Thank you. Now,
21 turning to the threat issue again, for purposes of a
22 threat determination, which, as we all know, is
23 forward looking, how much should I be relying on
24 current Chinese tax policy?

25 MR. HECHT: Jim Hecht. I guess I would kick

1 it off. It's a difficult question to answer, in a
2 way. Clearly, with respect to this specific product,
3 they have maintained an export rebate throughout the
4 entire period. At certain times, they have had other
5 measures on other products, which would, arguably,
6 encourage them to shift even more into line pipe.

7 You're dealing with a situation where the
8 Chinese government can put on or take off, both in
9 response to determinations of this Commission and
10 other things they see, to try to largely encourage
11 exports. I think our take on what they do is they
12 address their tax policy to maximize exports where
13 they can, and I think that's been the clear path.

14 If you look at what they have done in
15 response to past actions, what they are doing right
16 now in response to the economic crisis, and I think
17 the conclusion to draw from that is, going forward,
18 they will adopt whatever tax and industrial policies
19 they need to to maximize exports of these pipe
20 products, which we think, of course, adds
21 significantly to the threat that we face.

22 MR. SCHAGRIN: Let me just agree,
23 Commissioner Pinkert, that, obviously, it's difficult
24 when the Chinese government makes changes so rapidly
25 and abruptly to all of their export tax regimes, and

1 the Commission is trying to decide how much can I rely
2 on what today's numbers when I'm looking into a real
3 and imminent future.

4 But I think, in a way, you're almost stuck,
5 at the time the record closes, with the information
6 that is available to you, and, in this particular
7 case, it's going to continue to demonstrate that there
8 is still a large differential between the rebate for
9 line pipe and no rebate on other steel products or
10 other pipe and tube products and that you can
11 certainly deem that that provides a significant
12 incentive by the government of China to export this
13 product versus a number of other products, and if
14 that's where the record is at the time it closes, it
15 seems to me that any of your reviewing courts would
16 say, it sure looks like substantial evidence, even
17 though it may be subject to change, was the
18 substantial evidence before the Commission at the time
19 you establish your record.

20 COMMISSIONER PINKERT: Thank you. I would
21 like to thank the entire panel. Did you have
22 something to add, Mr. Price?

23 MR. PRICE: I would just add, just real
24 briefly, that I agree with both of my colleagues that
25 there is an extra incentive to export this product,

1 but the macro changes that we're actually seeing from
2 the Chinese government, both in their tax policy
3 changes recently, has been just export more, export
4 more of everything you can export, and that's the
5 message they are sending out right now in their
6 economy.

7 COMMISSIONER PINKERT: Thank you. Again, I
8 would like to thank the entire panel. Thank you,
9 Madam Chairman.

10 CHAIRMAN ARANOFF: I don't believe there are
11 any more questions from commissioners. Is that
12 correct? Do you have another question, Commissioner
13 Williamson?

14 COMMISSIONER WILLIAMSON: One point. I note
15 Mr. McGill is here, and he hasn't said anything. I
16 was just wondering if there is anything he wanted to
17 add. I'm sorry. It's because you're sitting on that
18 side that we've ignored you this time.

19 MS. BYERS: Don't take our silence as being
20 anything except just a complete affirmation of what
21 you've heard earlier today. Wheatland is a producer
22 of line pipe, and this is a very important case for
23 them. I would also add that it's important that you
24 do the right thing today. We had very big concerns
25 about the possibility of producers and exporters in

1 China trying to sell line pipe as circular welded pipe
2 in the U.S. market. So we think a comprehensive
3 approach to the Chinese problem is really advisable.
4 Thank you.

5 COMMISSIONER WILLIAMSON: Thank you for your
6 contribution. Thank you.

7 CHAIRMAN ARANOFF: I don't believe there are
8 any further questions from the commissioners at this
9 point, so, on behalf of all of us, I want to thank the
10 panel again for your time this morning.

11 I do need to ask now whether staff have any
12 questions for this panel.

13 MR. CORKRAN: Douglas Corkran, Office of
14 Investigations. Thank you, Chairman Aranoff. The
15 staff has no additional questions.

16 CHAIRMAN ARANOFF: Okay. Then I guess we
17 thank you again, and you can all either stay seated
18 during the closing, or, if you prefer, you can move
19 back to your other seats, and we'll invite forward --
20 is it Mr. Price who is giving the closing? Please
21 come on forward.

22 MR. PRICE: Good afternoon. For the record,
23 I am Alan Price of Wiley Rein. I want to thank the
24 Commission and its staff for all of their work in this
25 investigation.

1 I would like the Commission to keep in mind
2 one number: 26,000. I'm going to come back to that
3 number in a minute.

4 First, I would like to note that there is a
5 significant increase in the volume of subject imports
6 over the POI. Chinese imports undersold the domestic
7 product, and they stole critical profits and volume
8 from the U.S. manufacturers at the peak of the market.
9 These facts are uncontested.

10 I submit that a current material injury
11 finding is warranted. Indeed, no one has argued to
12 the contrary.

13 Now, I think this final determination also
14 presents a compelling threat case. You don't have to
15 be an economist to know that we are in a deep
16 recession. What is even more troubling for the U.S.
17 line pipe producers is that natural gas and oil prices
18 have plummeted. As energy prices have collapsed, so
19 has drilling. The rig count has already fallen
20 dramatically in the last week, and we expect decreases
21 of 50 to 30 percent in the near future. Lower energy
22 prices, less rigs, less exploration all means less
23 demand for line pipe, and this is an industry that is
24 subject to the energy market boom-and-bust cycle.

25 In the declining cycle we are now in, even a

1 small quantity of subsidized and dumped imports will
2 cause injury, and the Respondents have not contended
3 otherwise.

4 So as to the threat factors and facts, what
5 does the evidence of record show? The Chinese have
6 every incentive to ship into the U.S., and they intend
7 to do so in substantial quantities. In fact, the
8 Chinese government manipulates its VAT rebates and
9 subsidies to promote increased exports, and we know
10 that the Chinese are still making offers into the U.S.
11 Respondents have not denied this.

12 There is an enormous amount of unused
13 Chinese tubular capacity, and the volume of subject
14 imports from China exploded over the POI and,
15 according to importers, only abated because of the
16 filing of the petition. No one has denied this.

17 As to product shifting, the recent Chinese
18 welded OCTG imports show that there are significant
19 potentials for product shifting. Further, the Chinese
20 are flooding every pipe market they can. The reaction
21 throughout the world has been the prosecution of
22 numerous AD and CVD cases. This, too, is uncontested.

23 So the massive Chinese excess capacity,
24 coupled with their history of surging into the U.S.
25 market at cut-throat prices and with sharply decreased

1 line pipe demand in a time of economic turmoil, all,
2 all, add up to an imminent threat of material injury,
3 and no one has argued to the contrary.

4 So just based upon the facts available, an
5 affirmative determination is warranted, and this
6 brings me back to the number, 26,000. The Commission
7 is authorized to draw adverse inferences against
8 parties who refuse to cooperate in an investigation.
9 While, frankly, we all know the Commission has been
10 reluctant to draw such findings, I submit that the
11 current case is exactly the scenario in which adverse
12 inferences should be drawn.

13 According to Congress, the very purpose of
14 the adverse inferences provision is to ensure that a
15 party does not obtain a more favorable result by
16 failing to cooperate than if it had cooperated fully.
17 As they have in other recent investigations, Chinese
18 producers' strategy in this case has been to engage
19 fully at the Department of Commerce and to refuse to
20 participate in the Commission's injury investigation.

21 The Chinese producers' reasoning is obvious.
22 The Department frequently takes adverse inferences in
23 cases in which foreign producers are nonresponsive,
24 and so Chinese producers know they will suffer from a
25 lack of cooperation.

1 In contrast, the Chinese producers believe
2 that their absence today, and their lack of
3 cooperation throughout the investigation, could help
4 them obtain a more favorable result. Twenty-six
5 thousand, thirty-six, to be precise; that is the
6 number of pages that the Chinese have filed while
7 participating in the DOC investigation. Does this
8 sound like an industry that is not interested in
9 shipping massive volumes of subsidized and dumped line
10 pipe to the U.S. market?

11 The Commission attempted to obtain data from
12 65 Chinese line pipe producers, but it received one
13 partial response from an insignificant producer. The
14 Chinese industry has refused to cooperate. They
15 should not, and must not, be rewarded for this
16 behavior.

17 The only thing that stands between the
18 renewed flood of Chinese line pipe imports and further
19 material injury is this investigation. While the
20 domestic industry has placed its trust in this
21 Commission, the Chinese are hoping that their strategy
22 of silence and obstruction pays off.

23 While the evidence of record already
24 demonstrates injury and threat thereof, the Commission
25 also has 26,000 reasons to apply adverse facts

1 available. Thank you.

2 CHAIRMAN ARANOFF: Thank you, Mr. Price.
3 Thank you again to everyone who participated in the
4 hearing this morning and to the staff for all of your
5 preparation.

6 Posthearing briefs, statements responsive to
7 questions and requests of the Commission, and
8 corrections to the transcript must be filed by
9 December 2, 2008. Closing of the record and final
10 release of data to the parties will take place on
11 December 15, 2008, and final comments are due on
12 December 17, 2008.

13 With that, and in perfectly good time for
14 lunch, we are adjourned.

15 (Whereupon, at 12:56 p.m., the hearing in
16 the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Circular Welded Carbon Quality Steel
Line Pipe from China and Korea

INVESTIGATION NO.: 701-TA-455 & 731-TA-1149-1150

HEARING DATE: November 24, 2008

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: November 24, 2008

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 E. Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley

Signature of Court Reporter