

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)	
)	Investigation No.:
FRONTSEATING SERVICE)	731-TA-1148 (Final)
VALVES FROM CHINA)	

Pages: 1 through 211

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
) Investigation No.:
FRONTSEATING SERVICE) 731-TA-1148 (Final)
VALVES FROM CHINA)

Tuesday,
March 10, 2009

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

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

APPEARANCES:

On behalf of the International Trade Commission:Commissioners:

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DANIEL R. PEARSON, VICE CHAIRMAN
DEANNA TANNER OKUN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
IRVING A. WILLIAMSON, COMMISSIONER
DEAN A. PINKERT, COMMISSIONER

APPEARANCES: (Cont'd.)

Staff:

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WILLIAM R. BISHOP, HEARINGS AND MEETINGS
COORDINATOR
SHARON BELLAMY, HEARINGS AND MEETINGS ASSISTANT
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CHARLES YOST, ACCOUNTANT/AUDITOR
RHONDA HUGHES, ATTORNEY
GEORGE DEYMAN, SUPERVISORY INVESTIGATOR

In Support of the Imposition of Antidumping Duty Order:

On behalf of Parker-Hannifin Corporation (Parker):

DARRYL MILLER, General Manager, Climate Systems
Division, Parker
CHRIS J. NELSON, Division Market Development
Manager, Climate Systems Division, Parker
DR. PATRICK MAGRATH, Managing Director, Georgetown
Economic Services, LLC
BRAD HUDGENS, Economist, Georgetown Economic
Services, LLC

DONALD R. DINAN, Esquire
CRAIG A. KOENIGS, Esquire
Roetzel & Andress, LPA
Washington, D.C.

In Opposition to the Imposition of Antidumping Duty
Order:

On behalf of Zhejiang Sanhua Co., Ltd. (Sanhua):

MARK JIN, Vice President, Sanhua International
Inc.
TONY GUO, Marketing Manager, Sanhua
International Inc.

DAVID J. CRAVEN, Esquire
Riggle & Craven
Chicago, Illinois

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APPEARANCES: (Cont'd.)

On behalf of Zhejiang DunAn Hetian Metal Co., Ltd.
(DunAn):

NED H. MARSHAK, Esquire
Grunfeld, Desiderio, Lebowitz, Silverman &
Kledstadt LLP
Washington, D.C.

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P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN ARANOFF: Good morning. On behalf of the U.S. International Trade Commission I welcome you to this hearing on Investigation No. 731-TA-1148 (Final) involving Frontseating Service Valves From China.

The purpose of this investigation 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 less than fair value imports of subject merchandise.

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 that parties are aware of time allocations. Any questions regarding the time allocations should be directed to the Secretary.

Finally, if you will be submitting documents

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1 that contain information you wish classified as
2 business confidential your requests should comply with
3 Commission Rule 201.6.

4 Now, I'm changing the procedure slightly
5 this morning so I should just mention to you --
6 because it is the holiday of Purim and I decided to
7 have a little fun with it -- this device here is
8 called a grogger for any of you who are familiar with
9 it. It makes a very nasty noise. If any of my
10 colleagues go over their 10 minute questioning time
11 and the red light comes on you may hear the grogger.

12 Also, I do have a costume here today just to
13 celebrate the holiday. We do take the subject matter
14 of our hearing very seriously, but that doesn't mean
15 we can't have a little fun now and again.

16 Mr. Secretary, are there any preliminary
17 matters?

18 MR. BISHOP: No, Madam Chairman.

19 CHAIRMAN ARANOFF: All right. Then let us
20 proceed with the opening remarks.

21 MR. BISHOP: Opening remarks on behalf of
22 Petitioner will be by Donald Dinan, Roetzel & Andress.

23 MR. DINAN: Good morning, Madam Chairman,
24 Commissioners. My name is Donald Dinan, and I
25 represent the Petitioner in this case, Parker-Hannifin

1 Corporation.

2 In our testimony we will hear from Darryl
3 Miller, the General Manager of Climate Systems
4 Division of Parker-Hannifin, who will testify in
5 describing Parker, the Climate Systems Division, the
6 product, the New Haven facility where the product is
7 manufactured and conditions of production, employment
8 and pricing.

9 We will also hear from Mr. Chris Nelson, who
10 is the Division Market Development Manager at Parker's
11 Climate System Division who will testify on sales and
12 marketing conditions.

13 Finally, we will hear from Dr. Patrick
14 Magrath, Managing Director of Georgetown Economic
15 Services, who will describe the conditions of
16 competition, injury and the causation of injury.

17 Parker-Hannifin has filed this petition on
18 frontseating valves, also known as FSVs, from the
19 People's Republic of China to seek relief from dumped
20 imports of FSVs from that country. Parker alleges
21 that the Chinese producers are selling FSVs in the
22 United States at less than fair value and that these
23 imports are causing material injury or the threat
24 thereof to the domestic industry.

25 Parker's Climate Systems Division

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1 manufactures the FSVs at its plant in New Haven,
2 Indiana. There are only two Chinese producers, DunAn
3 and Sanhua. There are no imports of FSVs from any
4 other country.

5 In this case, the industry in the United
6 States is comprised of Parker CLS as it is the last
7 remaining producer of FSVs in the United States. The
8 merchandise as stated is FSVs, and the material injury
9 and threat thereof are caused by the importation of
10 FSVs from the People's Republic of China, which
11 account for 100 percent of the imports into the United
12 States.

13 In determining material injury, the
14 Commission looks to whether an industry in the United
15 States is materially injured or is threatened with
16 material injury. Looking at the statutory criteria,
17 the evidence will show and the testimony today will
18 bolster that there has been a significant and
19 increasing volume of imports from China which have had
20 an injurious impact on the domestic industry.

21 Imports are being sold at unfair prices,
22 which are both suppressing and depressing the domestic
23 price. Looking at relevant economic factors, domestic
24 production, market share and employment for the
25 domestic industry have all declined as a result of the

1 imports from China. Sales are down. Profitability is
2 down.

3 All sales in the country are made to the
4 seven air conditioner manufacturers in the United
5 States, which will be referred to as OEMs. Since the
6 imports, Parker has lost customers. It has lost four
7 of the six OEMs that it supplied and lost part of its
8 business to the remaining two.

9 Finally, the evidence and the testimony
10 today will show that there is a reasonable indication
11 of a threat of material injury.

12 Thank you very much.

13 MR. BISHOP: Opening remarks on behalf of
14 Respondents will be by David J. Craven, Riggle &
15 Craven.

16 MR. CRAVEN: Good morning, Madam Chairman
17 and members of the Commission, and Happy Purim. My
18 name is David Craven. I'm with the law firm of Riggle
19 & Craven.

20 I am here today on behalf of Sanhua
21 International and Zhejiang Sanhua, Ltd., who from this
22 point I will collectively refer to as Sanhua, to
23 present our opposition to the imposition of an
24 antidumping duty order on frontseating service valves
25 from China.

1 This dispute is not over the basic facts.
2 Both the domestic industry and the Respondents agree
3 as to the basic facts. An analysis of the traditional
4 statutory factors for injury and threat of injury,
5 when taken in a vacuum, show the domestic industry may
6 well be injured. It has lost market share. It has
7 experienced a decline in its total control of the
8 market. It is something less than total control.

9 Where the Respondents and the domestic
10 industry do not agree is the reason, the causation for
11 this decline. The domestic industry would have you
12 believe that this decline is the result of unfair
13 price competition from the imports and that the only
14 difference between the domestic industry's product and
15 service and the imports' product and service is that
16 of price.

17 The Respondents submit and we will show you
18 today that this is simply not true. The declines are
19 related to factors other than imports. The
20 Respondents in fact offer superior quality product as
21 judged by the customers and offer other services and
22 support not offered by the domestic industry.

23 Whereas here the product is a small part of
24 the value of the end product, but it is a critical
25 component, the price is simply not the most important

1 factor.

2 In contrast, as detailed in the conference
3 that was held in conjunction with the preliminary
4 investigation and as we set forth in our prehearing
5 brief, the domestic industry simply does not listen to
6 its customers and provide them with the products and
7 services they demand.

8 In sum, if the domestic industry is being
9 injured it is the result of its failure to listen to
10 its customers and to supply the customers with the
11 products that they need.

12 I thank you. I look forward to our
13 presentation. Thank you.

14 CHAIRMAN ARANOFF: Mr. Secretary, can you
15 please call the first panel forward?

16 MR. BISHOP: Would those in support of the
17 imposition of an antidumping duty order please come
18 forward and be seated?

19 Madam Chairman, all these witnesses have
20 been sworn.

21 (Witnesses sworn.)

22 CHAIRMAN ARANOFF: Can we just move Mr.
23 Nelson's name thing out from behind the water bottle?
24 We can't see it there either. Sorry. Perfect. Thank
25 you.

1 Please proceed whenever you're ready.

2 MR. DINAN: The first witness will be Darryl
3 Miller.

4 MR. MILLER: Good morning. My name is
5 Darryl Miller. I'm the General Manager of the Climate
6 Systems Division of Parker-Hannifin. I've been with
7 Parker-Hannifin 25 years.

8 Parker-Hannifin was established in 1918. It
9 is a large, multi-corporation that is divided into
10 nine technology segments supporting 1,200 markets
11 worldwide. Some of Parker-Hannifin's key markets
12 include aerospace, hydraulic seals, filtration and
13 climate controls.

14 The Climate Systems Division of Parker-
15 Hannifin produces valves and other controls for a
16 number of climate control applications used in
17 residential and commercial air conditioning,
18 refrigeration and transport cooling.

19 Parker-Hannifin, through its Climate Systems
20 Division, is currently the only U.S. producer of
21 frontseating service valves in the United States.
22 Parker-Hannifin has been producing frontseating
23 service valves since 1967. Currently Parker-Hannifin
24 produces all frontseating service valves in its
25 facility in New Haven.

1 In North America, frontseating service
2 valves are used to contain the refrigerant charge in
3 the condensing unit prior to the installation in a
4 split air conditioning system commonly known as
5 central air. Specifically, frontseating service
6 valves isolate sections of the system prior to the
7 installation and the servicing and provide a means for
8 the technician to charge the refrigerant into the AC
9 unit.

10 To understand how a frontseating service
11 valve is used, it's helpful to understand how a split
12 system air conditioning system works. The central air
13 uses the furnace's blower to draw room air into the
14 unit through the return air ductwork and then through
15 the filter, which removes unwanted particles.

16 The room air moves past the chilled indoor
17 coil, called an evaporator, which removes the room's
18 air heat. The resulting cold air travels along the
19 large metal box on top of the furnace, called a
20 plenum, where the air is channeled back to the
21 ductwork and returned to the room.

22 During the installation of an AC unit two
23 frontseating service valves are used to connect the
24 outside unit to the two lines that convey the
25 refrigerant to and from the indoor coil and the

1 expansion device. One line conveys the gas
2 refrigerant, while the other line conveys the liquid.

3 Hence, the air conditioner unit contains two
4 frontseating service valves, usually the larger one,
5 which you see here, a -12 or in this case a -14, and
6 also a smaller one, a liquid valve, a -6.

7 You can also see I brought samples from
8 DunAn, which you may be able to see behind the water,
9 and also Sanhua valves. As you can see, they're
10 virtually identical and perform the same functions.

11 Frontseating service valves perform
12 essentially three major functions. First, they retain
13 the precharged refrigerant in the condensing unit
14 before installation.

15 Second, they provide a shutoff possibility
16 which enables the unit to be serviced once installed
17 without removing the refrigerant from the system, and
18 they provide a service port to pull vacuum on the
19 indoor unit during installation and a port for
20 diagnostic purposes.

21 As recently as 2004, Parker-Hannifin
22 supplied more than 90 percent of the U.S. frontseating
23 service valve market. In just three years our share
24 has been decimated -- it's only about a third of the
25 market -- because of dumped imports from China.

1 There are two Chinese producers of
2 frontseating service valves that supply the U.S.
3 market, Sanhua and DunAn. Both Sanhua and DunAn have
4 increased their volumes by being the lowest priced
5 suppliers in the market.

6 They have sold in very large volumes at
7 prices that are below our cost of production. As a
8 result, we lost all of four and part of the remaining
9 two of our six accounts to imports from China during
10 the ITC's period of investigation.

11 We were told from the remaining accounts
12 that we would lose their business if we do not meet
13 the "Chinese price." It was only with the filing of
14 this case that we were able to retain these two
15 accounts, albeit with some further price concessions.

16 We have done everything possible to lower
17 our cost structure and prices. We have implemented a
18 number of capital investments to improve our
19 production efficiency. For example, we have installed
20 computer automated machining and assembly equipment
21 which exceed \$7 million in cost prior to the period of
22 investigation. This allowed us to significantly lower
23 labor cost at capacity and improve productivity.

24 Our substantial efforts at cutting costs and
25 improving efficiencies still did not allow us to match

1 the Chinese pricing. This is of great concern to us,
2 particularly as our raw material costs have greatly
3 fluctuated.

4 Virtually all of our raw material costs are
5 comprised of copper and brass. As you report in your
6 staff report, copper and brass prices have increased
7 more than 150 percent during this period of
8 investigation.

9 We need to be able to increase prices
10 sufficiently to cover these cost increases and regain
11 some measure of profitability of these products, but
12 in the face of high levels of imports from China we
13 have been unable to adequately increase or even
14 sustain our prices as was evident in the deteriorating
15 financial performance on our frontseating valve lines
16 during this period of investigation.

17 Even though the Chinese producers pay world
18 commodity prices for these raw materials, their
19 frontseating service valve prices do not reflect the
20 increase in these raw material costs during this
21 period to the OEMs.

22 You can see from our questionnaire response
23 that the direct impact from the large and increasing
24 volume of dumped imports of frontseating service
25 valves from China is that our prices remain

1 suppressed, our profitability has dropped, investments
2 have been postponed, capacity utilization has dropped
3 and our employment levels have been significantly
4 reduced.

5 All of these declining trends are tied
6 directly to the presence of the dumped imports from
7 China in our market. Even as demand for frontseating
8 service valves declined during the period of
9 investigations, imports from China have grown
10 significantly in absolute terms and as a percentage of
11 the total frontseating service valves consumed by the
12 OEMs.

13 In light of our worsening financial
14 condition and loss of market share to imports from
15 China, it is impossible for us to continue making the
16 investments in equipment, processes and people
17 necessary to sustain in the long term. We cannot
18 continue to invest in the face of no return on
19 investment, nor can we continue to match or beat
20 Chinese prices on frontseating service valves.

21 If the high volume of dumped imports from
22 China continues to undersell us, take market share and
23 hold down prices, we will be forced to leave the
24 frontseating service valve business entirely. We
25 don't believe that option will be good for the market

1 or our customers.

2 The Chinese presence and influence in the
3 market has become so pervasive that Parker's Climate
4 Systems Division could lose the entire frontseating
5 service valve market in the near future if assistance
6 against unfair trade is not provided.

7 We are committed to remaining a domestic
8 frontseating service valve producer. While we
9 recognize there's a place for imports in the market,
10 they must not be dumped.

11 If the Chinese industry is required to stop
12 dumping in this market, we are confident that we can
13 effectively compete and again achieve a fair return on
14 our investment as we were doing just a few short years
15 ago. Thank you.

16 MR. DINAN: We will now hear from Mr. Chris
17 Nelson.

18 MR. NELSON: Good morning, everybody. My
19 name is Chris Nelson, and I'm the Market Development
20 Manager for the Climate Systems Division of Parker-
21 Hannifin. I've been with Parker-Hannifin for more
22 than six years.

23 In my testimony I'm going to describe how
24 frontseating service valves are sold in the U.S.
25 market and describe how imports from China have

1 captured a significant share of our market in just
2 three years.

3 Frontseating service valves are sold
4 directly to OEM manufacturers of air conditioning
5 units in the United States. There are seven OEM
6 manufacturers that purchase frontseating service
7 valves. They are Carrier, Goodman, Lennox, Nordyne,
8 Trane, Rheem and York.

9 During 2004, we supplied six of these OEM
10 manufacturers, accounting for 90 percent of the
11 market. By 2007, we had lost entirely all the
12 business from four OEM manufacturers and partial
13 business from two others, leaving us with roughly
14 one-third of the market. We lost all these accounts
15 solely on the basis of price.

16 As your staff report clearly demonstrates,
17 Sanhua and DunAn significantly undersold us in all
18 transactions, often at prices well below our cost.
19 Over 90 percent of the sales of frontseating service
20 valves are on a long-term contract basis.

21 Contracts are negotiated with the OEM
22 manufacturers for multiple deliveries over a one to
23 three year timeframe. Due to the significance of each
24 contract, the loss of a single contract has a
25 significant volume and financial impact on our

1 business.

2 The product characteristics of frontseating
3 service valves also make the market particularly
4 vulnerable to price competition from the dumped
5 imports. Relatively few sizes and product forms
6 account for the bulk of the market, making it
7 relatively easy for the Chinese producers to capture a
8 large share of the U.S. market in a short period of
9 time.

10 Because frontseating service valves are
11 products made to OEM and industry specifications, it
12 is relatively unimportant to the OEMs whether they use
13 a product from one manufacturer or another or whether
14 the product is produced domestically or by a Chinese
15 manufacturer.

16 We compete for the same customers on the
17 same products as the Chinese in the United States, and
18 since the two Chinese manufacturers have qualified
19 their products at OEMs the competition for a contract
20 is strictly on the basis of lowest price.

21 Goodman testified in the preliminary phase
22 of the investigation, and Sanhua argued in its
23 prehearing brief that the Chinese producers offer
24 superior quality in terms of defective parts per
25 million and in superior delivery times than Parker-

1 Hannifin.

2 I'd like to emphatically object to this
3 allegation. We have submitted to the Commission staff
4 records that document that our quality of frontseating
5 service valves was vastly superior to Goodman's own
6 standard.

7 Our on-time delivery was nearly perfect at
8 99.7 percent to their in-house request dates prior to
9 Goodman switching to DunAn as a sole supplier.
10 Goodman switched to sourcing solely from DunAn because
11 of their low price offers, not because of any
12 differences in quality or delivery terms.

13 I would like to make an additional point on
14 quality; that is, we submitted statistics of the
15 defective parts per million for each of our OEM
16 customers in our postconference brief which shows a
17 defective rate far below the industry standard for
18 each of our OEMs.

19 The Respondents have argued that imports
20 have the advantage of offering product on a consigned
21 inventory basis. Consigning is nothing new to us. In
22 fact, we supplied Trane under a consignment when we
23 lost their frontseating service valve business to
24 Sanhua.

25 We are currently in consignment contracts

1 with different products other than frontseating
2 service valves. However, due to the high pricing
3 pressure on the frontseating service valve market we
4 have not been able to recover the holding, handling
5 and warehousing costs associated with this service.

6 Given all the underselling that we face in
7 the U.S. market, it is simply too expensive to offer
8 consignment at no cost. The additional cost of
9 offering inventory on a consignment basis really is a
10 price issue. In addition to offering products at a
11 dumped price, the fact that the Chinese producers
12 offer this service really translates into further
13 price reductions.

14 We directly trace our loss of market share
15 of frontseating service valves to imports from China
16 in a number of ways. There is no question that
17 imports from China significantly undersell us in the
18 marketplace.

19 I read in the public staff report that you
20 have found that Chinese imports undersold us in all
21 comparisons by margins ranging from 11 to 45 percent.
22 I can personally attest to this degree of
23 underselling, and it is reflective to our experience
24 in the marketplace.

25 This underselling has allowed Sanhua and

1 DunAn to directly take sales and market share away
2 from us. Between 2005 and 2007, we lost annual
3 commitments to the vast majority of our U.S. customers
4 on a one-to-one basis to the Chinese manufacturers.

5 I have read in Sanhua and DunAn's briefs
6 that the OEMs are purchasing imports from China to
7 have an alternate source of supply, but the pricing
8 from Chinese imports is so low that five of the seven
9 OEMs are purchasing solely from one single source of
10 supply in China, either Sanhua or DunAn.

11 Consequently, price has been the single
12 determining factor of the sale in a market, and the
13 imports from China have consistently and significantly
14 undersold us throughout this period.

15 Over the past several years, the OEMs are
16 becoming increasingly familiar with the Chinese
17 product and the willingness of the Chinese producers
18 to supply them at prices far below our own.

19 Because we can no longer afford to lose
20 these accounts at longstanding customers, we have been
21 constrained to defend our remaining business by
22 aggressively lowering our prices to our current
23 customer base even when it means that we will operate
24 at a financial loss.

25 As you have seen, our questionnaire shows

1 that our financial performance has deteriorated
2 significantly during the period of investigation. Our
3 difficulty in maintaining profitability on
4 frontseating service valves can be attributed only to
5 the imports from China.

6 The market is comprised of only frontseating
7 service valves produced by either Parker-Hannifin,
8 Sanhua or DunAn. All of Parker's lost sales on
9 frontseating service valves have been due to these two
10 Chinese producers and these producers only. In other
11 words, there are no imports of frontseating service
12 valves from any other source except China.

13 If China's pricing continues at current
14 levels, we may be forced to cease manufacturing
15 frontseating service valves and be driven from the
16 market. China has enough frontseating service valve
17 production capacity to supply the entire U.S. market
18 with its dumped product.

19 Given the capital intensive nature of
20 frontseating service valve production, this perhaps
21 more than anything explains why the Chinese industry
22 has been so aggressive in its U.S. sales efforts for
23 the last few years.

24 Since frontseating service valves are
25 dedicated to the U.S. market, there's no other market

1 that this capital investment can be directed towards.
2 With that kind of capacity and the Chinese producers'
3 pattern of pervasive underselling, Parker's position
4 will continue to worsen.

5 Thank you very much for your attention.

6 MR. DINAN: And finally now we will hear
7 from Dr. Magrath.

8 MR. MAGRATH: Mr. Bishop, could I have a
9 time check?

10 MR. BISHOP: You have 45 minutes remaining.

11 MR. MAGRATH: Okay. You know, I now have a
12 new thing to fear, this grogger thing.

13 CHAIRMAN ARANOFF: It's not for the
14 witnesses. We're very hospitable toward the
15 witnesses.

16 MR. MAGRATH: Does that include lawyers and
17 economic consultants? I don't think so.

18 CHAIRMAN ARANOFF: No. That's a gray area.
19 I'm going to have to think about that.

20 MR. MAGRATH: Madam Chairman, I suggest that
21 Mr. Dinan and I are Irish, so if you want us to shut
22 up all you have to say is last call and we'll stop.

23 Good morning, members of the Commission,
24 Commission staff, ladies and gentlemen. My name is
25 Patrick Magrath of Georgetown Economic Services. With

1 me from GES today is Brad Hudgens back here.

2 We are appearing here today on behalf of the
3 Climate Systems Division of Parker-Hannifin
4 Corporation -- we'll refer to them as Parker CLS --
5 the only producer of frontseating service valves in
6 the United States.

7 As we noted in the preliminary phase of this
8 investigation, despite the complex nature of this
9 product from say an engineering standpoint, from a
10 trade case perspective the product and market are
11 simple.

12 There is one U.S. producer of FSVs and two
13 Chinese import suppliers. No nonsubject imports or
14 economic substitutes to confuse the issue. Due to a
15 comprehensive and lengthy qualifications process,
16 other entrants are not present.

17 This investigation is further simplified by
18 FSVs having only one end use, split air conditioning
19 systems, and only one channel of distribution, end
20 users. These end users, which are a small universe of
21 consumers as these cases go, are seven large original
22 equipment manufacturers of those split air
23 conditioning systems.

24 I think the OEMs will be the focus of some
25 discussion today. Suffice it to say at this point the

1 OEMs are conspicuous by their absence here today.

2 A final simplifying factor is that all seven
3 OEMs purchase FSVs by the same general process: A
4 competitive bid process resulting in contracts for FSV
5 purchases, usually of one to three years in duration,
6 as Mr. Nelson has just said, after which contracts are
7 renegotiated and renewed.

8 This simple, head-to-head competition, and
9 that's the way the ITC in its preliminary
10 determination refer to it, head-to-head competition,
11 in the market situation renders many of the
12 alternative causes of injury that you sometimes
13 consider that result in negative determinations moot
14 such as the predominant impact of nonsubject imports,
15 serious like product issues or attenuated competition
16 due to different distribution systems, different
17 channels of distribution I should say, and levels of
18 trade, for example.

19 The head-to-head competition is an important
20 condition of competition because it results in a zero
21 sum gain. You have the OEMs and their contracts on
22 the one hand and either Parker CLS or one of the two
23 Chinese firms filling those contracts on the other.

24 As we've said, contracts run from one to
25 three years and are renegotiated and rolled over. In

1 the period, Parker has attempted to renegotiate four
2 such contracts and lost all four to either Sanhua for
3 Lennox, Trane and York or DunAn, the Goodman contract.

4 Parker CLS ceded a portion of its Rheem
5 business to Sanhua in 2006 and had no appreciable FSV
6 business with Nordyne in the period, the fifth of the
7 six OEMs that source from China.

8 Finally, the seventh and last OEM, Carrier,
9 for some of its business has gone to China, but Parker
10 has retained most of that account, but only by meeting
11 the China price and at a great cost to Parker CLS'
12 bottom line. Please refer on that issue to please see
13 the prehearing report at page VI-6, the P&L table.

14 And that's our case really. Parker CLS
15 started the POI filling contracts for six OEMs earning
16 solid profits. It ends the POI servicing only one OEM
17 and part of another and suffering operating losses on
18 FSVs in both calendar year 2007, as well as the latest
19 interim period, on a greatly reduced sales volume,
20 reduced production, reduced and inadequate capacity
21 utilization.

22 Parker CLS loses the contracts one-by-one
23 and the FSV units shipped within those contracts.
24 Sanhua or DunAn gain. Simple, one-to-one substitution
25 of Chinese FSVs for U.S. FSVs with each substitution

1 constituting a lost sale.

2 The Commission can fill in the blanks in
3 this zero sum game from these basic facts. Losing
4 four of five OEM contracts within the POI, you can
5 easily envision what the trend of subject imports is
6 and with these units replacing CLS the volume effect
7 of those imports.

8 You can readily envision what losing four
9 out of five OEM contracts means for the level and
10 trend of the trade and financial indicators usually
11 looked at by the Commission: Capacity utilization,
12 shipments, operating profits, capital expenditures.
13 We'll summarize these numbers later, but you know the
14 general picture already.

15 This entire case is neatly distilled in the
16 section in the staff report on lost sales and
17 revenues. Six of the seven OEMs responded to the lost
18 sales and revenue allegations of Parker CLS. Their
19 APO responses are given on pages Roman numeral V-16
20 and 17 of the prehearing report.

21 The amounts alleged are significant, as
22 would befit the size of contracts required by large
23 OEM manufacturers that manufacture equipment that
24 really goes into every residence in the United States.
25 The responses are almost unanimous that price was the

1 reason they switched to Chinese FSVs.

2 One purchaser disagreed with the amounts and
3 prices alleged, but not with the essence of the
4 allegation. The OEM FSV contracts one-by-one were
5 switched from domestic producer Parker CLS to Chinese
6 producers by reason of price.

7 As stated above, the one-to-one zero sum
8 game in the market meant that whenever the Chinese
9 increased imports or market share it was at the
10 exclusive expense of the U.S. industry, that is Parker
11 CLS. That is why the pie charts on Exhibit 1 that
12 I've passed out are mirror images of each other with
13 the U.S. in blue and, as always, with the Respondents
14 in red.

15 As you can see, we have conveyed the
16 relative shares without explicitly stating the
17 numbers. As one can conclude by looking at the red
18 portions of this chart, the volume of subject imports
19 is significant.

20 The injurious impact of Chinese prices in
21 the U.S. market is just as clear, probably more clear,
22 based on the evidence that is just as conclusive as
23 these volume indicators.

24 As to the issue of underselling, which is
25 one of the two measures by which the Commission

1 determines price effect, we can hardly do better than
2 the staff's own statement in the prehearing report:

3 "The data show that prices of imports from
4 China were lower than U.S. producer prices in all 45
5 quarterly comparisons of Products 1, 2 and 3 by
6 margins ranging from 11.0 percent to 45.9 percent."
7 That's in the prehearing report at Roman numeral V-13.

8 The charts in the report done by the staff
9 show this deep blanket of underselling by subject
10 imports in each of the 15 quarters for each of the
11 price descriptor products all at double digit margins.
12 These charts are on page Roman numeral V-12 and 13 of
13 the prehearing staff report.

14 In its preliminary determination, the
15 Commission also found such comprehensive underselling
16 by LTFB imports and also found that, "Subject imports
17 have to a significant degree prevented domestic price
18 increases that otherwise would have occurred. The
19 ratio of cost of goods sold to net sales increased
20 steadily over the period."

21 This ratio, which shows whether U.S.
22 producers have the ability to increase prices at the
23 same pace as raw material and other direct costs,
24 continued to rise, as you can see from Exhibit 2,
25 continued to rise through the great majority of the

1 period covered by this final investigation.

2 Note on Exhibit 2 that the COGS net sales
3 ratio, cost of goods sold net sales ratio, after
4 breaching 100 percent in 2007 pulled back somewhat in
5 the most recent interim period due to the filing of
6 this case and the beneficial impact it has had on
7 Parker CLS. However, the ratio is still at very high
8 levels, so high that it still results in negative
9 profitability on FSVs at an operating level in interim
10 2008.

11 The volume and price effects of dumped
12 Chinese valves, as has been stated above, resulted in
13 the loss of all of the business of four OEMs, partial
14 loss of another and the retaining of the business --
15 almost all the business -- at the remaining OEM at
16 unfavorable terms. In fact, filling the two contracts
17 it is currently unprofitable for Parker CLS, the
18 remaining two contracts.

19 The impact on the domestic industry trade
20 variables in this case was once again predictable, and
21 these are summarized in Chart 3. Given the trends and
22 the levels, they are appropriately in red. The trend
23 in virtually all trade indicators continued to decline
24 in interim 2008 after showing losses here in 2005-
25 2007. This is Chart 3.

1 Finally, financial indicators also declined
2 with profitability of Parker CLS' frontseating service
3 valve product line plummeting from double digit
4 profitability at the start of the period to net
5 operating losses in 2007 and 2008, Exhibit 4.

6 In conclusion, the head-to-head competition
7 between the only remaining U.S. producer of
8 frontseating service valves and its two Chinese
9 competitors makes for a clear, uncluttered analysis of
10 this zero sum market situation.

11 With the one Petitioner reporting verified
12 horrendous declines in its trade and financial
13 indicators on its FSV product line, there is a clear
14 connection to causation due to this head-to-head
15 market situation.

16 Respondents have very few -- indeed they
17 have made very few -- counterarguments so far, and
18 it's getting late in the investigation. We were
19 heartened to hear from Mr. Craven that they basically
20 agree on the data that is before you that was
21 developed in the staff report.

22 Respondent Sanhua's arguments in the
23 preliminary that an affirmative determination would
24 reward a monopoly was dismissed by the Commission. As
25 you can see from Exhibit 4 and Exhibit 3, the trends

1 and level of the U.S. industry, that's some monopoly.

2 The DunAn Goodman rebuttal in the
3 preliminary concerned alleged inferior quality of
4 Parker valves. In an effort to substantiate these
5 allegations, Goodman submitted in its postconference
6 brief ratings of dozens of Goodman suppliers for the
7 2007 and 2008 period.

8 These materials, to our mind, have nothing
9 to do with frontseating service valves, and I think
10 the staff has reached the same conclusion. The
11 materials rate dozens of suppliers when there are only
12 three FSV suppliers in the market, and the ratings are
13 for periods that are well after the point after which
14 DunAn had taken all of Goodman's FSV business away
15 from Parker CLS.

16 Other materials submitted by Respondents
17 clearly refer to valves other than frontseating
18 service valves. Please see the staff's assessment of
19 these materials on page Roman numeral V-18 of the
20 prehearing staff reporting.

21 In fact, the records Petitioner has
22 submitted on its quality and that we will submit in
23 the postconference brief and that we will submit in
24 the posthearing brief on its low DPPMs and its high
25 on-time delivery percentages show Parker CLS'

1 performance greatly exceeds OEM standards, all the OEM
2 standards on the FSV product line.

3 Importantly, those charts, that data that we
4 will submit, we have submitted, those are on
5 frontseating service valves, not a whole bunch of
6 other valves, not on the entire business.

7 Finally, in this phase of the investigation
8 DunAn's attorneys limit their prehearing brief only to
9 comments concerning critical circumstances, dropping
10 all references to a quality argument or all references
11 to the ratings of the test materials that they
12 submitted in their preliminary and that they testified
13 to. How do you say that in Spanish? No mas?

14 If DunAn's "proof" of Parker's inferior
15 quality is grossly irrelevant, Sanhua's questionnaire
16 response and prehearing brief at least border on that
17 territory. Without going into APO data, the
18 Commission and staff may have already noted the
19 deficiencies of the OEM supplied material attached to
20 the Sanhua brief.

21 First, they include material from an OEM
22 which did not answer the ITC's questionnaire and has
23 given no data in this proceeding, at least that we
24 know of, to the staff and which is not present here
25 today. Second, those materials did not rate Parker

1 valves at all, only Sanhua's.

2 A second set of documents contain materials
3 from another OEM, one that did not buy FSVs from
4 Parker CLS during the period of the evaluation. There
5 is no mention of Parker CLS valves in those
6 evaluations, and the evaluation appears to cover a
7 much broader class, again a much broader class of
8 valves than merely service valves.

9 Conclusion: There is no corroboration of
10 any quality allegations against Parker CLS
11 frontseating service valves in the Sanhua prehearing
12 brief either. If either of these Respondents had
13 anything specific about Parker's frontseating service
14 valves, the Commission would have had it. The
15 Commission does not.

16 What record facts do we have then to help
17 the Commission decide what role alleged differences in
18 quality played versus Petitioner's contention that
19 OEMs switched to China because of price?

20 Petitioner would put forth the following:
21 First and foremost, the lost sales and revenue
22 examples, all of which agreed with Parker CLS sales
23 and revenue allegations, were true and were due to
24 price. I should have said almost all of which were
25 true and were due to price.

1 Second, the substantial and unanimous
2 margins of underselling shown in section Roman numeral
3 V of the staff report. Why do the so-called superior
4 Chinese valves have to sell for so much less to
5 convince the OEMs to change suppliers?

6 Why, once the business is gained by the
7 Chinese and the alleged superiority of the Chinese
8 valves allegedly proved, would the underselling
9 margins remain so high and would even in some cases
10 increase?

11 Finally, there are questionnaire responses
12 of the OEMS themselves which enshrine price as a very
13 important variable in purchasing decisions. The
14 standard, by the way -- I know the Commission knows
15 this -- is that price should be an important
16 purchasing variable.

17 It need not be the most important purchasing
18 variable, although I would bet my lucky tie here that
19 I've worn to every hearing for 25 years that price is
20 the most important variable to the OEMs in their
21 purchase of frontseating service valves.

22 The OEMs also identified the Chinese as
23 being lower in pricing and, finally, that the Chinese
24 popularity in the marketplace is due overwhelmingly to
25 price and price-related variables such as better

1 terms, willingness to negotiate price reductions and
2 willingness to offer consignment arrangements at no
3 additional cost.

4 We will end with this. It is a piece of
5 paper that we will submit in the posthearing brief,
6 although you've seen it before. It was the basis of
7 one of our dumping allegations in the petition. It's
8 an email circa 2007 from one of the OEMs to Parker
9 CLS. It's an OEM that now has gone over, has left
10 Parker and buys exclusively Chinese frontseating
11 service valves.

12 Parker on this date in 2007 had made a bid
13 to this OEM to regain its frontseating service valve
14 business it had lost to the Chinese. After listing
15 the low current prices from China, the OEM executive
16 states:

17 "Current supplier is also net 60 day terms
18 and is utilizing our consignment program. To
19 seriously consider a supplier change, we would need to
20 see at minimum net 60, consignment and a five percent
21 or better cost savings. The above price guidelines
22 only get you..." -- that is Parker. "...only get you
23 about even with our current situation."

24 Now, please note what is not in that
25 statement by the OEM purchasing executive, what is not

1 there. Nothing about qualification, nothing about
2 quality, nothing about performance. Those attributes
3 are assumed. Quality issues are not even mentioned.
4 Only price, price, price and price-related variables.

5 It has proposed to Parker CLS that it lower
6 its price, that it agree to certain price terms, net
7 60, and, finally, that it institute with the OEM a
8 consignment arrangement, which is also a price-related
9 concession, if Parker CLS wants the deal.

10 This email from the OEM's mouth itself, so
11 to speak, is what it really takes to get OEM business
12 in this market in which all three suppliers are well
13 known, large, established valve manufacturers. Low
14 price and price-related concessions.

15 Thank you for your attention. Thank you,
16 staff, for a fair and comprehensive report.

17 MR. DINAN: And that would conclude the
18 direct presentation of the Petitioner Parker-Hannifin
19 and its Parker CLS Division.

20 Thank you very much for your kind attention
21 this morning.

22 CHAIRMAN ARANOFF: Welcome to all the
23 witnesses. Thank you very much for your testimony
24 this morning.

25 We are going to begin the questioning with

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1 Commissioner Williamson.

2 COMMISSIONER WILLIAMSON: Thank you, Madam
3 Chairman. I want to thank the witnesses for taking
4 the time to come today and present their testimony.

5 The first question is given that 70 percent
6 of the consumption is for the replacement market and
7 every air conditioning unit uses a small and a large
8 FSV, is it possible that you might have one of those
9 FSVs being a Chinese product and another being a
10 Parker product?

11 MR. NELSON: Typically the 70 percent
12 replacement market is for the complete condensing
13 unit, so when that condensing unit is supplied as
14 someone's air conditioner breaks at their house, they
15 replace the air conditioning unit.

16 So they'll buy either a Carrier, York or
17 Trane, one of the manufacturers' condensing units,
18 that will have a liquid frontseat valve and a suction
19 frontseat valve that was installed at the factory for
20 when the unit was built, and typically almost all the
21 time or basically all the time those valves are sold
22 by one manufacturer to the company that's making the
23 condensing unit itself.

24 COMMISSIONER WILLIAMSON: Okay. So it's
25 very rare that the mechanic goes out to the home and

1 just replaces the valve?

2 MR. NELSON: Right. That's correct.

3 Actually, the valve itself is not really a serviceable
4 item. It's something that the service technician uses
5 when he's servicing the air conditioning system.

6 They're not going to replace the service
7 valves. They're typically replacing the whole
8 condensing unit, so they're taking the whole outside
9 unit out of the system.

10 COMMISSIONER WILLIAMSON: Does that mean
11 that you rarely replace units because of valve
12 failures then, I take it?

13 MR. NELSON: That's right. Yes. It's not a
14 service item.

15 It's not something that's replaced in the
16 field unless someone during installation would
17 actually burn up a valve or something like that during
18 the brazing process, but that is very infrequent.

19 COMMISSIONER WILLIAMSON: Okay. Thank you
20 for that clarification.

21 There was some discussion about some of the
22 testimony from Respondents about quality issues. It
23 referred to other types of valves. Does that mean
24 that the OEMs might be buying a package of valves? Do
25 they buy packages of valves from you, not just the FSV

1 valves?

2 MR. NELSON: Yes. Actually Parker-Hannifin
3 and our Climate Systems Division or actually the
4 Climate Industrial Controls Group has about four
5 different manufacturing facilities that supply a wide
6 variety of components that are used in an air
7 conditioning system.

8 It could be filters, check valves and other
9 types of components that are supplied as a package to
10 these manufacturers.

11 COMMISSIONER WILLIAMSON: To what extent are
12 you seeing a problem with Chinese suppliers replacing
13 those other products? In other words, are we talking
14 about a package thing?

15 MR. NELSON: No. On the frontseating
16 service valves there's a contract specifically
17 negotiated out as just a single point of contract.

18 COMMISSIONER WILLIAMSON: Okay. Thank you.
19 Any further clarification of that?

20 MR. NELSON: No. There are other components
21 that are supplied by us and also Chinese manufacturers
22 as well that can be packaged, but it's very rare that
23 we package frontseat service valves with any other
24 kind of contract that we've been working on.

25 COMMISSIONER WILLIAMSON: Okay.

1 MR. NELSON: They've been on a one-to-one
2 basis.

3 COMMISSIONER WILLIAMSON: Thank you. I just
4 wanted to clarify that point.

5 In its postconference brief on page 5,
6 Sanhua states that Parker was issued a patent in May
7 of 2006 for a new product, a plug style air
8 conditioning service valve, and this competes directly
9 with FSVs. Sanhua refers to this as a superior
10 product.

11 Exactly what is the new product and to what
12 extent has it been marketed as a substitute for FSVs?

13 MR. MILLER: The product they're referring
14 to we call Genesis valve. It was developed to be able
15 to be a full flow valve to give increased performance
16 targeted to help to try to improve efficiencies.

17 It's significantly more expensive than a
18 frontseat valve, and since then that project has been
19 killed. It was never launched.

20 But we routinely go through and look at
21 alternatives to produce different types of valves, and
22 we'll patent that as part of our business.

23 COMMISSIONER WILLIAMSON: But I take it it's
24 not a factor? It's not going to be replacing FSVs?

25 MR. MILLER: No, not at all.

1 COMMISSIONER WILLIAMSON: Okay. Thank you.

2 Are there any major differences between FSVs
3 produced by Parker and those produced from China or
4 imported from China?

5 MR. MILLER: No, there isn't. They're
6 virtually identical.

7 COMMISSIONER WILLIAMSON: Okay. So you just
8 can't look at them and sort of say well, that's a
9 Parker valve?

10 MR. MILLER: I mean, you can look at them.
11 There might be like ours will have stamped Sporlan on
12 top, which is one of our brands. We'll have a
13 different cap. You can see on the samples that were
14 going around. They look a little bit differently.

15 Sanhua's look -- their machine body is
16 similar to ours as well, so they look almost
17 identical. The end caps are a little bit taller.

18 So if you know what you're looking at you
19 can tell a difference, but for some of the contractors
20 and so forth they really can't tell a difference.

21 COMMISSIONER WILLIAMSON: Mr. Dinan?

22 MR. DINAN: Yes. Commissioner, I would say
23 when you actually look at them, and we do have samples
24 of all three of the companies, it's kind of the
25 picture is worth a thousand words.

1 I'll submit that you'll see exactly what Mr.
2 Miller has said. For all intents and purposes they
3 look and are essentially identical, and the changes --
4 you almost have to look at the minutiae, none of which
5 are functional.

6 MR. MILLER: Commissioner, however, the
7 Parker witnesses will testify that each OEM has a
8 slightly different configuration for its frontseating
9 service valves, which they will work with the
10 manufacturer on so that a Lennox valve doesn't look
11 exactly like a Goodman valve, like a Trane valve.

12 COMMISSIONER WILLIAMSON: Okay. Mr. Nelson,
13 there was a point in your testimony in which you
14 explained why you thought the Chinese had captured the
15 market so quickly, market share so quickly, and I
16 really didn't get that point. I was wondering if you
17 could explain it.

18 MR. NELSON: Actually, in 2005 was the point
19 when we had the majority of the market.

20 There's a couple Chinese manufacturers that
21 basically copied the valve that we had developed and
22 started promoting it to the OEMs at cost levels that
23 were far below what we were currently selling at.

24 And even I guess to bring up the point too,
25 even when we were selling to these OEMs we were

1 typically under contract agreements where we were
2 giving them productivity improvements over the period
3 of years of the term, so we were giving them certain
4 reductions in cost during the time of the period when
5 we had the business.

6 When the Chinese started supplying to the
7 market the price levels were so far below what we were
8 offering, the savings to the OEMS were significant.

9 Since the drop-in ability -- the form, fit
10 and function replacement of the copy design was
11 basically a drop-in -- it made it fairly easy for them
12 to qualify and get the units to change over to the
13 Chinese supplier.

14 COMMISSIONER WILLIAMSON: I'm sorry. The
15 drop-in what?

16 MR. NELSON: Drop-in replacement. The form,
17 fit and function of their valve was basically the same
18 valve as ours.

19 COMMISSIONER WILLIAMSON: So basically they
20 copied your valve? Is that it?

21 MR. NELSON: Yes.

22 COMMISSIONER WILLIAMSON: There's no patent,
23 so they --

24 MR. NELSON: Right. Right.

25 MR. MAGRATH: Commissioner, actually we have

1 the Respondents, Riggle & Craven, to thank for this
2 point.

3 There is a small universe of purchasers, and
4 there are a lot of valves in each one of these
5 contracts, so when one of these contracts is
6 renegotiated and a supplier is changed a large chunk
7 of the market goes away from the guy that lost right
8 away and is added to the guy who won right away, so
9 that is why this market share disappeared so fast.

10 COMMISSIONER WILLIAMSON: Okay. And I take
11 it that there's not a large market outside the United
12 States for these units, these split units. Is that
13 correct?

14 MR. NELSON: Yes. Basically the product is
15 a North American design, mostly used in North America.
16 It's a valve that's used on a split air conditioning
17 system that uses forced air cooling through the house.

18 You look at other markets in Europe, Asia,
19 India, they don't typically use a forced air cooling
20 system or even have cooling necessarily, and they use
21 a different type of air conditioning unit that uses
22 different kinds of components than what we have on our
23 units here in North America.

24 COMMISSIONER WILLIAMSON: Okay. And all the
25 major U.S. major manufacturers continue to produce

1 their products here in the U.S., as opposed to going
2 offshore?

3 MR. NELSON: No. They have most of their
4 manufacturing here in the States. There are some
5 plants that have a company that have auxiliary
6 operations in Mexico as well.

7 COMMISSIONER WILLIAMSON: Okay.

8 MR. NELSON: But the units are so big it's
9 hard to ship them.

10 COMMISSIONER WILLIAMSON: Okay. Thank you
11 for those answers. Thank you.

12 CHAIRMAN ARANOFF: Commissioner Pinkert?

13 COMMISSIONER PINKERT: Thank you, Madam
14 Chairman. I'd like to thank the panel for being with
15 us today to help us understand what's going on in this
16 industry.

17 I want to begin with some questions that
18 pertain to the economics of the industry, and feel
19 free, anybody on the panel, to try to address these.

20 You talked about how offering the
21 consignment option was a price related issue, and I'm
22 wondering whether you can quantify for us -- I don't
23 know if that's Dr. Magrath or somebody else on the
24 panel, but quantify the relationship between offering
25 that option and price.

1 MR. MILLER: I can get started. First of
2 all, from a consignment standpoint there's really two
3 factors.

4 One is the fact that you're either having to
5 lease space or purchase space, and then you have to
6 have equipment in that space to move product around.
7 You can either go to a third party logistics and pay
8 for that or put it in place yourself.

9 So you've got the operating cost of the
10 warehouse, if you will. Also, you're unloading the
11 truck basically twice and you're loading the truck
12 twice, so you've got added cost that way.

13 The second factor to look at is really more
14 the holding cost on the product. If you look at the
15 cost of capital, the 10 percent, and if you're holding
16 \$2 million worth of valves or \$200,000 worth of valves
17 it's a significant cost that most corporations would
18 rather invest otherwise to get a return for that, so
19 that is significant.

20 MR. MILLER: Yes. That second cost, the
21 unit carrying cost, is significant. I mean, these
22 valves are made of -- especially in the environment
23 for commodity metals that ended six or seven months
24 ago.

25 Copper and brass were extremely expensive

1 materials to have tied up in a warehouse somewhere
2 waiting for your purchaser to decide whether he wanted
3 to take the units or not. It's a very expensive
4 proposition.

5 COMMISSIONER PINKERT: Have you actually
6 performed an internal analysis of this issue in order
7 to determine how much one would have to charge in
8 order to make that a commercially viable proposition
9 for your company?

10 MR. NELSON: Yes. Actually, I can refer to
11 a recent incident that happened last year in that we
12 were supplying a customer a variety of products from
13 our facility in New Haven. They wanted us to set up a
14 consignment location for their usage and stock that.

15 So we went through the usage of what the
16 products were on an annual basis to determine what
17 type of space we would need, worked out the terms with
18 a third party logistics warehouse that was located
19 near the facility that they actually had worked with
20 to come to terms with what our cost would be per month
21 to actually have the space in their facility and then
22 also what type of costs we would run into with regard
23 to them delivering product on a daily or twice daily
24 timeframe to the location.

25 So we had what our set costs would be, and

1 we also knew what our holding costs or carrying costs
2 would be throughout the year based on the volume of
3 product that we were going to be holding at that
4 facility.

5 We came up with what that cost would be
6 spread out over the volume of products that they were
7 using. We went back to the customer and said we can
8 do this. We can set this up. It's going to affect
9 your piece price by X cents per part, X dollars per
10 part, and said do you want to go forward with this?
11 They said yes, we do, and that's how we changed and
12 worked out the agreement on that.

13 That was something other than frontseating
14 service valves. With frontseating service valves
15 we're to the point where the price levels are so
16 depressed to the point where they were getting
17 consignment at a very depressed price level that we
18 don't even meet supplying out of just our factory and
19 make any kind of business case. That was a smart
20 decision to do.

21 MR. MAGRATH: Remember, Commissioner
22 Pinkert, that we've testified -- here's how important
23 consignment is. Parker CLS had the Trane contract and
24 had a consignment agreement with Trane and lost the
25 business anyway, all of the business, to the Chinese.

1 So you can put it into consignment
2 arrangement. You can put it into low price. You can
3 put it into better terms, currency exchange risk,
4 metals exchange risk, but at the end of the day it all
5 boils down to what price you're going to put there on
6 your offer sheet.

7 COMMISSIONER PINKERT: Thank you. Now
8 staying with you, Dr. Magrath, I'm wondering about
9 these arguments that we've heard about the market
10 power of Parker-Hannifin.

11 In particular, I'm wondering if you could
12 put that into some kind of context, the market power
13 that is exerted by the OEMs in the market?

14 MR. MAGRATH: Well, many times it's an
15 important condition of competition if all the sellers
16 are facing a restricted small number of buyers.

17 It certainly is in this case. Market power
18 really belongs to the OEMs. That's why they can
19 demand things like consignment contracts and low
20 price, continuous productivity, continuous cost
21 improvements. There are only a few of them that are
22 purchasing large purchases, large amounts of valves.

23 The market power argument for Parker, the
24 monopoly, I just don't know what to do with that.
25 This is the ITC, not the FTC. I mean, here's a

1 company that lost over two-thirds of the market within
2 a period of two years. I mean, that's no kind of
3 monopoly or the way a monopoly power operates.

4 Finally, let me say that there was
5 competition before the Chinese entered the market.
6 There were U.S. producers in a competitive situation,
7 and they fought it out with Parker.

8 These gentlemen can perhaps detail that
9 competition before the Chinese showed up and blew
10 everybody away.

11 COMMISSIONER PINKERT: Let's do that and
12 then go back to the issue of how the OEMs are able to
13 extract concessions in the U.S. market, but first go
14 ahead and answer that part.

15 MR. NELSON: Yes. Actually prior to us
16 losing a substantial portion of the market there were
17 other people that were manufacturing frontseat service
18 valves and also there were constant pressures that we
19 were constantly being given as far as people coming in
20 and saying we've got a price on another offer on
21 frontseat service valves that is more competitive than
22 yours. Can you do anything?

23 We were always continually working
24 competitively through those situations, and typically
25 we are very successful. We did that by the

1 investments that we made in our factory in order to
2 streamline our production, eliminate waste, and
3 usually when we were negotiating and renegotiating
4 these contracts we were doing it to share the waste
5 reductions and productivity improvements with our
6 customers.

7 It was something that we made a fair margin
8 on, and I think that it would be attestable by what
9 you saw on our financials that were submitted that we
10 were not out gouging any market share or anything like
11 that. We were being competitive and trying to work
12 with our customers to share the productivity
13 improvements that we were able to pick up.

14 MR. MILLER: I would like to add one more
15 thing in that we not only sell frontseat service
16 valves. We sell flow control devices. We sell
17 thermal expansion devices or sealers.

18 Parker sells hundreds of millions of dollars
19 into this industry to these OEMS, so they exert a lot
20 of power on all our product lines so we have to be
21 competitive across all of them. Otherwise we're
22 threatened across the board on all products.

23 COMMISSIONER PINKERT: Is there some sort of
24 price leadership among the OEMs? Is there some
25 internal dynamic that you've been able to discern?

1 MR. MILLER: I'm not sure if I understand
2 the question. Is there price leadership with the OEMs
3 as far as who's the price leader in the market?

4 COMMISSIONER PINKERT: In other words, is
5 there a particular OEM that establishes what the price
6 is going to be among the OEM purchasers?

7 MR. MILLER: The prices for the raw material
8 components themselves like the valves? Okay. I was
9 kind of confused with the price of the units sold at
10 the end of the market.

11 Not really. The OEMs pretty much act
12 independently, and the prices aren't shared across
13 OEMs, so they don't really know who's paying for what
14 and what price levels.

15 COMMISSIONER PINKERT: Thank you. I'm going
16 to stop there so that I don't get the grogger.

17 CHAIRMAN ARANOFF: I want to step back a
18 little bit from discussion over specific price terms
19 and just ask a more general question about how
20 contract negotiations take place in this market. I
21 understand that we're dealing with a market where
22 there are just a few major purchasers and they all
23 purchase on one to several year contracts.

24 So when one of those contracts opens up or
25 is coming to the end and you're going in to negotiate

1 with that OEM, can you describe what that process is
2 like? Who approaches who to offer price terms? Do
3 you know that you're bidding against other suppliers,
4 and how much do you know about the prices that they're
5 offering?

6 MR. NELSON: Okay. Typically, since it is
7 such a small industry we keep pretty close contact and
8 know when the contract terms are going to be expiring,
9 and when we do talk to them, on a frontseat service
10 valve contract we'll know who we're going to be
11 competing against, we know generally where the price
12 points have been in the past.

13 In our recent negotiations within the last
14 couple of years it's been something that we haven't
15 been able to really be even in the range of the price
16 points that are being thrown out of target pricing
17 from our customers, and that target pricing is derived
18 upon Chinese level pricing.

19 CHAIRMAN ARANOFF: Okay. So the normal
20 process would be that your customer says to you, well,
21 this is about the price that we'd like to see from you
22 for this next year, two years, three years, and then
23 you come back and say, well, I can't quite do that,
24 but here's what I can do for you?

25 MR. NELSON: Right, and sometimes they won't

1 come out right and say what their targets are.
2 Different customers operate differently, but we'll go
3 in with a proposal which will include the pricing
4 terms, our quality targets, our lead times, and then
5 also typically a multiyear we'll state some targets on
6 productivity and pretty much through the additional
7 years of the contract that they would sign on to.

8 CHAIRMAN ARANOFF: Okay. And are these
9 usually informal oral negotiations or are there
10 written offer documents being exchanged?

11 MR. NELSON: They become written contracts.
12 They start initially as basically, you know, could be
13 email correspondence, and that's typically how they'll
14 initially start out.

15 MR. MAGRATH: Madam Chairman, we're going to
16 submit one of these, as I said in my testimony, in the
17 posthearing brief. You'll see it does start out as a
18 pretty informal process, but, you know, this is the
19 chief buyer of an OEM and he's contacting Parker, he's
20 giving them the Chinese prices and he's asking them
21 to, you know, you've got to be five percent below
22 these targets and you've got to offer net 60 and
23 you've got to offer consignment. So, I mean, but a
24 more formal contract would be drawn up after that.

25 CHAIRMAN ARANOFF: Okay. Now, do you

1 usually cover more than just this product in a single
2 contract or would the contract be just devoted to this
3 product and then you might have other contracts?

4 MR. NELSON: Historically, they've always
5 been just for the frontseat service valve. We have
6 other contracts for other major product categories.

7 MR. MILLER: Most of the OEM's like to keep
8 them separate to be able to compete against and use
9 one supplier against the other instead of having a
10 group of products.

11 CHAIRMAN ARANOFF: Okay. What I think would
12 be helpful, and I don't know how hard this would be to
13 put together for the posthearing, is you've obviously
14 had a fairly limited number of contracts in effect
15 with OEMs during the period of time that we're looking
16 at in this investigation.

17 If there's a way that you could put together
18 for us for each of those contracts, and some might be
19 expired now but were in effect during the period we're
20 looking at, just basically the basic price and volume
21 terms of the contract and what the duration of the
22 contract was. Because I'm interested in looking at
23 the extent to which those terms have changed over time
24 and just what they were.

25 Now, it would be great if we had the

1 purchasers represented so that we could get them to do
2 the same thing from their perspective, but we can't,
3 though I will ask the Respondents the same question
4 this afternoon. You know, with respect to volume
5 terms, I mean, if it's a requirements contracts, if,
6 you know, it's okay to say 100 percent of requirements
7 or 90 percent of requirements rather than any specific
8 volume targets that you might have been operating on.

9 Okay. Well, thank you for doing your best
10 to provide that information. Is the typical contract
11 that you end up with with a customer, is that a fairly
12 standard contract that comes from you, or is it a
13 contract that's supplied by the customer, or does it
14 tend to be, you know, heavily negotiated terms so it
15 doesn't look like a standard contract at all?

16 MR. NELSON: They are different between
17 customers and us, and it's something that's basically
18 on a going through back and forth negotiated process.
19 So there's not one standard contract that we work
20 with.

21 CHAIRMAN ARANOFF: Aside from the issue of
22 the price itself, are there any significant ways over
23 the last few years that your contracts have changed
24 that we should be aware of?

25 MR. NELSON: No.

1 CHAIRMAN ARANOFF: I just wanted to clarify
2 the conversation that you were having with
3 Commissioner Pinkert about consigned inventories, and
4 you had mentioned that you sometimes offer this on
5 other products. Do suppliers of parts other than FSEs
6 to air-conditioning OEMs in particular commonly
7 provide consigned inventories? Is that a common
8 practice in the U.S. market for other parts that go
9 into air-conditioning units?

10 MR. NELSON: It's not I would say a common
11 practice, but it's something that is more of a
12 convenience. One of the things that we try to do in
13 order to maintain our competitiveness is try to make
14 sure we're eliminating waste. Actually, by offering
15 consignment you're not really reducing any waste in
16 your value stream. You're offering a service that is
17 something that actually can kind of cover up a lot of
18 parcel pitfalls in the supply chain.

19 If you're supplying product from China to
20 the United States, you have to have some kind of
21 consignment inventory in order to be able to supply
22 the customer and not shut them down or run out of
23 product because the boat got stuck somewhere in the
24 ocean. We offer consignment whereas where it makes
25 sense with regards to offering that convenience where

1 a customer can go and pull off what they need and it
2 gives them a lot of flexibility.

3 When we typically had work with these
4 contracts and FSEs in the past we were working on lead
5 times that were under a week's time period and we were
6 very proficient in our production that we didn't have
7 a lot of inventory in our work in process, we didn't
8 have a lot of inventory in stock at our customers,
9 which basically cuts a lot of cost out of your supply
10 chain.

11 It's something that we saw the cost decrease
12 in and it's something our customers saw the cost
13 decrease in and it's something we are able to do and
14 keep the production lines running without any kind of
15 interruptions.

16 Our on time deliveries were always
17 maintained at levels that were in the 98 to 100
18 percent range to our customer request dates, so we
19 didn't think that adding consignment to our offering
20 on frontseat service valves was doing anything really
21 beneficial other than copying what the Chinese were
22 doing and that would just really build up inventory
23 and add costs to our supply chain, which would add
24 cost to the customer as well, too.

25 CHAIRMAN ARANOFF: Okay. Do you use sales

1 contracts when you're not using a consignment process?
2 Do you have a fixed delivery schedule in the contract
3 where purchasers expect shipments of certain
4 quantities throughout the duration of the contract or
5 do purchasers just call you and request shipments when
6 they need them?

7 MR. MILLER: It varies by customer. Depends
8 on how sophisticated their processes are. Our
9 remaining customers today use EDI, or electronic data
10 interchange, and send us MRP forecasts to go out in
11 months. With that, they also send us daily what the
12 requirements are for the next three days.

13 So we fine tune that and produce product to
14 be able to ship it to them for what their needs are on
15 a rolling three day bucket. So it's very close. We
16 do not do consignment for the two customers that we
17 keep today on frontseat service valves.

18 CHAIRMAN ARANOFF: And you're shipping
19 entirely from your factory location, you're not
20 shipping from warehouses or something like that?

21 MR. MILLER: That is correct.

22 CHAIRMAN ARANOFF: Okay. All right. Well,
23 thank you very much. Let me now turn the questioning
24 over to Vice Chairman Pearson.

25 VICE CHAIRMAN PEARSON: Thank you, Madam

1 Chairman. I also would extend my welcome. I used to
2 live in Minnesota where whole house air-conditioning
3 was nice but a little less essential. Now that I live
4 here in the D.C. Metropolitan area, it's difficult to
5 know how life would exist without frontseat service
6 valves and the units they go with, and so I appreciate
7 the opportunity to learn a little more about this
8 product.

9 First, Mr. Miller, a question about Parker-
10 Hannifin itself. Your firm really produces a wide
11 variety of items. You had mentioned that. Has Parker
12 been involved in any previous antidumping cases?

13 MR. MILLER: To my knowledge, we were
14 involved with one, I actually read it in your brief, I
15 didn't know about it, on some pneumatic valves.

16 VICE CHAIRMAN PEARSON: Okay. So, but given
17 the number of products that you manufacture and the
18 type of competition that no doubt exists in the
19 marketplace for many of them, what I'm curious about
20 is why did this case stand out as something different,
21 something more in the marketplace, what you normally
22 might do to compete in a marketplace? Why was that
23 not working here?

24 MR. MILLER: I mean, quite simply, when we
25 would try to compete in the marketplaces and the

1 prices that we were told that we had to meet as the
2 incumbent to keep this business was at or below our
3 cost so we kept scratching our head. We went to
4 China, we looked for manufacturing. We have plants in
5 China. We costed it there and we still couldn't
6 compete.

7 So we came back, you know, and through the
8 data analysis decided that, I mean, the only thing
9 that could be happening is selling below cost, and
10 that's why we couldn't compete. I mean, our labor is
11 a very small percentage of our cost because we're very
12 highly automated.

13 VICE CHAIRMAN PEARSON: Certainly you've had
14 other products lines where you've been losing market
15 share or things have not been going well. I mean, you
16 can't be running a multiproduct business and have your
17 product go well all the time. I understand that. So,
18 but in contrast to those other cases, you found
19 something different about this one.

20 MR. MILLER: Again, when you look at the
21 product, it's basically brass and copper. So when you
22 do the analysis to be able to compete, it just clearly
23 shows the fact that even if we just charge raw
24 materials prices at cost, we still weren't going to
25 get the business.

1 VICE CHAIRMAN PEARSON: Okay. Mr. Dinan?

2 MR. DINAN: Yes. A key component or item of
3 this product is that the vast amount of the cost of
4 the product is the copper and brass input, copper and
5 brass commodities that are priced on the world market
6 and world exchanges, meaning everybody in the world
7 pay essentially the same price up for that raw
8 material.

9 China does not have indigenous those
10 materials, so they're paying that price with hard
11 currency. As Mr. Miller just testified, you get a
12 situation where you couldn't buy the copper for what
13 they were selling the valves.

14 VICE CHAIRMAN PEARSON: Okay. Let me ask a
15 little bit about consignment which other Commissioners
16 already have addressed. Did you provide any
17 consignment service for frontseated service valves
18 prior to when the Chinese entered the market? Was
19 this something that had been a practice prior to when
20 the Chinese got here?

21 MR. MILLER: The answer is yes, and it
22 depends a lot on the operating philosophies of the
23 companies, the OEMs. Trane was probably our first one
24 that we dealt with with consignment when they wanted
25 to be able to run their schedules to replenish lines

1 every four hours. They were the industry leaders when
2 it came to what they called design flow technology, or
3 DFT.

4 So they required parts to be there locally
5 and they didn't want any inventory in there for a
6 while, they wanted a third party to deliver it just in
7 time to their manufacturing. So the only way to do
8 that was through a consigned location, and, you know,
9 we went through an agreement with Trane on how we
10 would price the product based on that consignment.
11 That was several years even prior to this.

12 VICE CHAIRMAN PEARSON: Okay. And just
13 further clarification. Were you delivering product
14 from your factory directly to Trane's warehouse
15 adjacent to its plant or were you having to deliver it
16 to some other facility?

17 MR. MILLER: In Trane's case, we were
18 delivering it to another manufacturing, another
19 company, that was providing those services for Trane.
20 We still do that today.

21 VICE CHAIRMAN PEARSON: Okay. And then
22 Trane was responsible for getting the product from
23 that warehouse to its production facility.

24 MR. MILLER: That's correct.

25 VICE CHAIRMAN PEARSON: Okay. The

1 arrangement that you're describing with Trane, is that
2 basically similar to the arrangements that the
3 importers have with the OEMs? I don't have a sense of
4 how much variation there might be among consignment
5 agreements, so if there is some and you could explain
6 that, that would be good to know.

7 MR. MILLER: I think there is a lot of
8 variation, whether the warehouse space is actually
9 company owned, OEM owned or managed versus third party
10 ownership. It also varies, the charges vary. Some
11 will charge by pallet, some importers may pay the cost
12 on both ends of it, not only the delivery side and
13 handling from the supplier, but they may also pay the
14 delivery up to the manufacturing lines.

15 VICE CHAIRMAN PEARSON: Okay. I'm well
16 aware that a consignment arrangement can tie up a lot
17 of working capital. I think you mentioned that, Mr.
18 Nelson. One never wants to do that unnecessarily, but
19 obviously, you know, you do what you have to to
20 compete in the marketplace.

21 What I was wondering is it's not completely
22 obvious to me that a consignment arrangement
23 necessarily would tie up more working capital than
24 just a situation where you had commercial terms, net
25 60 days so that you were awaiting 60 days to get paid,

1 because certainly in some consignment situations,
2 after the product is delivered it might be used in a
3 lot less than 60 days. So can you discuss that for
4 me? Is there some difference in terms of working
5 capital requirement for a consignment arrangement
6 versus just normal commercial terms?

7 MR. MILLER: Well, from a consignment
8 standpoint you may keep four weeks or six weeks in a
9 location, and if you take one of our typical OEMs that
10 may run, you know, \$20 million a year in annual sales
11 on frontseat valves, so you will be keeping, you know,
12 on average, you know, you could have \$2 million to \$3
13 million worth of inventory sitting there, okay?

14 At cost of capital at 10 percent, I mean, it
15 could be costing you \$200,000 basically to hold that
16 inventory in location. Parker has chosen not to use
17 inventory. In fact, we'd rather invest that money in
18 our lean manufacturing where we can actually product
19 parts to order and be able to supply them just in
20 time, which we did in this case on frontseat service
21 valves.

22 We invested in capital equipment and
23 automated assembly to be able to produce with fast
24 lead times so that we don't have to hold that
25 inventory. Better to invest in equipment to give us

1 better return and improve our profitability versus
2 letting inventory sit there.

3 VICE CHAIRMAN PEARSON: Okay. I apologize
4 because I'm mixing up in my mind Ni-Resist Piston
5 Inserts, which is tomorrow's vote. What are the
6 normal commercial terms in this business? You know,
7 if you sell some frontseated service valves to an OEM,
8 when do you get paid?

9 MR. MILLER: Net 30 is our terms.

10 VICE CHAIRMAN PEARSON: Net 30. Okay.

11 MR. DINAN: I might point out that
12 oftentimes or many times in consignment contracts the
13 timing of the net payment terms only starts with
14 withdrawal for use. So if you ship directly, the 30
15 days starts that day. Consignment, it can sit there
16 four, six weeks and the 30 days doesn't start until
17 they withdraw for use.

18 VICE CHAIRMAN PEARSON: Okay. Thank you for
19 that clarification. That point helps me understand
20 it. Anything else that you would want to say about
21 consignment as we wind our way around it? Mr. Nelson?

22 MR. NELSON: Well, I was just going to say,
23 I mean, although we have our terms are net 30 days and
24 that's how we typically work with the majority of our
25 customers, I mean, we typically aren't paid in that

1 timeframe; however, we are open to discussing terms
2 with our customers.

3 It's all done at helping to share in the
4 cost of doing that, it's not something that we are not
5 open to negotiate. Same with consignment as well,
6 too. We negotiate terms of consignment, but we can't
7 do it for free.

8 VICE CHAIRMAN PEARSON: Okay. So you're
9 saying that you have basic willingness to work with
10 customers, but somehow it's got to make financial
11 sense for both parties.

12 MR. DINAN: Right.

13 VICE CHAIRMAN PEARSON: Okay. Fine. Madam
14 Chairman, the light's changing so back to you.

15 CHAIRMAN ARANOFF: Commissioner Okun?

16 COMMISSIONER OKUN: Thank you, Madam
17 Chairman. I join my colleagues in welcoming all of
18 you here today. Appreciate your willingness to appear
19 and answer our questions. We've learned a great deal
20 on a number of questions about pricing that I had. I
21 wondered, first maybe I would just augment a question
22 of the Chairman with respect to the information about
23 the contracts that she asked you to put on the record,
24 which I think will be helpful.

25 I wondered, Dr. Magrath, you had talked

1 about the email communication from one of the OEMs
2 that was part of the petition and that you'll put in
3 the posthearing brief. For those contracts that were
4 lost over the period of investigation, is there any
5 other additional information, emails or otherwise,
6 that would indicate the reason that the OEM did not
7 renew a contract where you had an existing contract?

8 MR. NELSON: It might be hard to pull up an
9 email to say that. I mean, we've always been
10 communicated and that's always been relative to the
11 pricing of the product, which has been where we've
12 been communicated back is why we're not successful in
13 getting the business. It might be hard to pull up all
14 that type of documentation.

15 MR. MILLER: I'd say we have the quotes, but
16 a lot of times we'll get just verbal response back
17 that, you know, we weren't competitive enough. But we
18 can certainly provide the quotes that we tried to go
19 after the business during that timeframe.

20 COMMISSIONER OKUN: I know that in your
21 testimony and in the briefs you had responded to some
22 of the allegations about quality. In your
23 communication with, again, folks right now on the
24 contracts that you lost, would there be any other
25 information that we don't have before us that would

1 refute the argument made by Respondents that those
2 OEMs were getting out of a contract for a reason
3 related to quality or delivery terms?

4 MR. MILLER: I guess the best example would
5 be that the number one supplier in the industry,
6 Carrier, is still our customer, as well as another
7 customer, and if delivery and quality were a factor,
8 why would they still be our customers?

9 COMMISSIONER OKUN: Okay. And the
10 Respondents, I think, tried to turn that argument on
11 the head and say that, you know, there must be some
12 other reason if you've kept, you know? I mean, one
13 could make the argument if it's only about price, how
14 do you have any contracts left? How would you respond
15 to that?

16 MR. MILLER: The best response is we had to
17 concede pricing in both those locations.

18 MALE VOICE: Commissioner, we testified to,
19 you know, look at the profitability of Parker on the
20 business they have remaining.

21 COMMISSIONER OKUN: Okay. As well as that,
22 I know that you have talked about, and we have the
23 non-BPI chart with respect to the price suppression
24 argument that you've made, in this industry where you
25 have these long-term -- I guess this would go to you

1 mainly, Dr. Magrath -- contracts and if you lose a
2 contract, as you've testified today, it means a large
3 hit on both the financials and on other, is there
4 anything in particular with respect to how we look at
5 price suppression that these long-term contracts would
6 make it more or less likely that that's an important
7 factor or a factor that behaves the way we would
8 expect?

9 MR. MAGRATH: The price suppression is on
10 the contracts that you have left. Now, both Parker
11 and their Chinese competitors have raw material
12 debit/credit program surcharges. It's my
13 understanding when the Carrier contract was negotiated
14 they were put in there, but Carrier and the other OEMs
15 would use the China price as a club by which they got
16 more favorable terms for them.

17 The price suppression comes out where the
18 base prices are so low that even with the adjustments
19 for raw material differences the prices you can charge
20 at the end of the day do not cover the differences in
21 the cost of the raw materials. Hence, you have what
22 we have in this case, negative profitability, and we
23 have the cost of goods sold sales ratio up at 100, in
24 the very high 90s.

25 COMMISSIONER OKUN: Thank you. And with

1 respect to raw material prices, and Mr. Dinan had
2 started talking about this and others have mentioned
3 it, but one of the arguments made by Respondents is
4 that the Chinese producers were better able, while
5 they may be on the world market they were hedging and
6 using other ways in which to offer contracts that I
7 guess changed the pricing differently than the
8 contracts that Parker was offering.

9 Can you respond to that anymore? Is there
10 anything else about that that we should take into
11 account? I mean I understand the argument about, the
12 underselling is the underselling, but I just wondered
13 with respect, we've talked about consignment, one of
14 the other questions we had in the prelim was, you
15 know, how raw materials are being set and how it
16 affects an existing long term contract. If these are
17 one to three years you're making adjustments during
18 that time as I understand it for raw materials, and
19 what you heard from Yo Yams when you were negotiating
20 with respect to that particular issue.

21 MR. MILLER: From the brass and copper
22 standpoint, it's been our longstanding with our OEMs
23 that we just take that out of the whole cost factor,
24 and whatever the published prices for those are, we
25 will adjust for those monthly and give a credit or a

1 debit back to the customers. The only time that we
2 will go out and hedge is with the OEM's permission.
3 And we have done that I believe two or maybe three
4 times in the past and one recently with our customers.

5 With their permission they'll give us a
6 price point where they want us to go out and purchase
7 copper and we'll do that, and they'll dedicate those
8 amount of pounds and we'll adjust pricing to them
9 accordingly. But because we have this indexing in
10 place, you know, and they're basically reimbursing us
11 for the brass and copper based on the actual
12 fluctuations in the market, we don't play the hedging
13 without their permission.

14 MR. MAGRATH: You know Commissioner, I don't
15 know if our witnesses, I certainly am not, wasn't a
16 big part of their materials, the Chinese hedging
17 programs in terms of these raw materials. But the
18 only reason we are here today is that yesterday the
19 Department of Commerce calculated that these Chinese
20 companies were selling valves in the United States at
21 underneath their cost of production. So I would
22 submit if they did hedge raw materials they didn't
23 hedge it that well because both of them were found to
24 be dumping by substantial amounts.

25 COMMISSIONER OKUN: Yeah, I take your point.

1 I think I was trying to explore more on the causation
2 argument that the Respondents have made with respect
3 to whether contract terms have changed during this
4 period of investigation that would indicate anything,
5 factors other than price per se at play and why Parker
6 lost the contracts it had.

7 MR. NELSON: I would just say that, per
8 Pat's comment, you know, if you aren't hedging well
9 you're taking a huge risk as to what the customer or
10 either the supplier, which I mean really, to have a
11 healthy customer/supplier relationship both companies
12 have to be viable and healthy. And you know it's
13 always been Parker's plan and how we've always worked
14 our contracts in the past going back into probably the
15 mid-90's that in order to make sure that the customer
16 gets the benefit of low materials, we hedge on a
17 monthly basis depending on what that material's doing.

18 Making sure that we're covered if it goes up
19 as well too so that we're not taking a big hit and
20 getting injured with regards to moving the materials
21 and making a bad guess on the hedging of product,
22 which as we mentioned we do hedge with some customers
23 with their permission, and actually in hindsight
24 probably those hedges weren't real good decisions for
25 the customer.

1 And that's something that we try to take
2 that completely out of the equation and try to work on
3 our productivity improvements and things that we know
4 we can control that are within our ability to control
5 and making sure those are the areas that we're
6 reducing costs, being competitive, and not trying to
7 guess at what metals are going to do one year from
8 now.

9 COMMISSIONER OKUN: Okay.

10 MR. MILLER: One thing I would like to add
11 is that almost all the OEMs will give us a set price
12 for copper and brass when we make quotes so that we're
13 all competing at the same level.

14 COMMISSIONER OKUN: Okay, very helpful
15 clarifications on that. My yellow light's on but I
16 kind of want to hear this grogger go off, it might
17 wake people up. So Dr. Magrath, I have one question
18 for you that you might be able to get in. You had
19 noted the effect of the pendency of the petition in
20 your remarks, and I wanted to ask you to expand on
21 that a little bit in terms of how you view that we
22 should evaluate the trends in the volume price and the
23 financials with respect to the impact that the
24 pendency of petition had.

25 MR. MAGRATH: Yes, I don't want to get

1 grogged here, or whatever it is, but there was an
2 improvement in the latest interim period. And our
3 witnesses can testify that the contracts they did
4 have, they had a loosening up of the terms for like
5 repeat business that was a result of the filing of
6 this case, maybe they can detail that later.

7 COMMISSIONER OKUN: Okay, yeah I do avoid,
8 even though I do kind of want to hear this, I do have
9 a red light so I'm going to -- I will ask that on my
10 next round. Thank you very much.

11 CHAIRMAN ARANOFF: Commissioner Lane.

12 COMMISSIONER LANE: Thank you. I want the
13 Petitioners to know that I do recognize the difference
14 between those valves and the thing that you're
15 threatening us with. Welcome to this morning's panel.
16 I would like to start with asking, and I know you've
17 probably answered this before but I don't quite get
18 the full picture, exactly what does Parker do besides
19 frontseated valves, and do you manufacture all of
20 those other products at I think you said four
21 different locations? But anyway I'd like to know, in
22 the overall Parker picture, how big is this product?

23 MR. NELSON: Well Parker Hannifin's got nine
24 different technology groups that they work with. It's
25 a \$12 billion a year company. The climate systems

1 division, which is the system that Darryl's the
2 General Manager for and I'm the Marketing Manager for,
3 we have three facilities, one in Indiana, one in
4 Tennessee, and a satellite operation in Mexico. We
5 make all of our frontseating service valves at our New
6 Haven, Indiana plant. At one point it consisted of
7 probably 50 percent of our business. With the drop in
8 sales that we've seen it is probably more in the range
9 of 15 percent of our business now.

10 COMMISSIONER LANE: Okay, thank you. That
11 was very helpful. What is the normal cost of a
12 service valve for an OEM and in the replacement
13 market? And would you consider the cost of the
14 service valves to be a very small part of the cost of
15 an air conditioning unit?

16 MR. NELSON: I guess as far as the actual
17 price, I'd like to answer that in our postconference
18 brief answer. We can give you the actual price that
19 we charge. Really the valves are sold strictly to the
20 OEMs only and not really as an after-market product.
21 And I believe we had stated that the cost of the
22 valves represents about 2 percent of the cost of an
23 air conditioner.

24 COMMISSIONER LANE: So if I could find a
25 \$100 air conditioner, the price of the valves would be

1 \$2?

2 MR. NELSON: Yeah that would be right, but
3 actually the typical cost of a condensing unit I think
4 it probably in the \$700 range.

5 COMMISSIONER LANE: Oh I knew that, I was
6 just using the 100 to keep my math simple, thank you.
7 So a \$700 condensing unit at 2 percent would be \$14.
8 And so, okay here's the part I'm having a really hard
9 time understanding. I mean I can look at the numbers,
10 I can look at the market that you have, I can look at
11 the price, the volume, and the impact. I am having a
12 hard time dealing with the allegations that the
13 Respondents are making that it is quality and the lack
14 of quality that caused you to lose your four or five
15 customers. And so my question is, did you get from
16 your customers complaints and how seriously did you
17 take those complaints?

18 MR. NELSON: On frontseating service valves,
19 which we internally track our DPPM rate on those,
20 which have been in the single to two-digit numbers
21 which is considered excellent as far as rejection
22 rates on a product on a DPPM level. We have
23 continually tracked that through all of our OEMs
24 through the whole period of investigation and there
25 was never one quarterly period where we had any kind

1 of a spike that would show that we had any kind of
2 quality issue with frontseating service valves.

3 COMMISSIONER LANE: I mean did your
4 customers convey to you directly that they had
5 problems with the quality of your valves and they were
6 expecting more service from you than you were giving
7 them?

8 MR. NELSON: Absolutely not.

9 COMMISSIONER LANE: So this all comes as a
10 surprise to you that they're claiming quality
11 problems?

12 COMMISSIONER LANE: Okay.

13 MR. MAGRATH: Commissioner, if I could make
14 a comment, the OEMs aren't claiming quality problems,
15 the Respondents are claiming quality problems because
16 they have few straws to grasp at. There is a table in
17 the Staff Report, in section 2 I think it's page 19,
18 where the Chinese and the U.S. are compared in a
19 number of qualities. Of the six OEMs, four marked
20 that the U.S. and the Chinese were equal in meeting
21 quality requirements, two said the Chinese were
22 superior.

23 Well one of those two is a OEM that has
24 opposed our petition all along. The second OEM,
25 although they said the Chinese were superior in

1 quality, that was also a verified lost sale. In other
2 words they said back in the lost sales section that,
3 yes they bought Chinese valves and the reason was
4 price. So the OEMs don't have any quality problems
5 with Parker Hannifin.

6 COMMISSIONER LANE: Okay, thank you. Do all
7 air conditioning units have frontseating service
8 valves regardless of the type, size, or manufacturer?

9 MR. MILLER: The answer is, the predominant
10 volumes have frontseating service valves. There are
11 units that are called package units that have the
12 indoor and outdoor all together, so there isn't a
13 need. They just basically blow air into a house or a
14 manufactured home. So those would not have a service
15 valve in those type of units.

16 COMMISSIONER LANE: Do the size and cost of
17 the service valves vary by sizes of air conditioners
18 or types of units?

19 MR. MILLER: Typically the liquid valves are
20 identical no matter what the tonnage of the unit.
21 They rate the sizes as far as tonnage, and the
22 standard would be like a 3 ton. When you get in
23 higher tonnage the gas valve, or the larger valve,
24 will vary. They will go from a 5/8ths type valve, or
25 what we would call a -10 up to a -14 as the unit gets

1 bigger because pressure drop becomes more critical.
2 So as the size goes up on those suction valves or the
3 gas valves, they'll be more expensive.

4 COMMISSIONER LANE: Okay, thank you. I'd
5 like for you to describe the methodology that you use
6 to calculate your capacity for producing FSVs.
7 Describe the assumptions you make with regard to the
8 hours per shift, shifts per day, downtime, etcetera.

9 MR. MILLER: Okay, when we calculate
10 capacity we look at the number of lines that are
11 available, we look at their line rates that are
12 available.

13 COMMISSIONER LANE: Could you speak in your
14 microphone a little bit?

15 MR. MILLER: Oh, sorry.

16 COMMISSIONER LANE: Okay.

17 MR. MILLER: We look at the number of lines
18 that we manufacture our frontseat valves on, we look
19 at the line rates on each one of those lines to be
20 able to calculate, we subtract from that lunches and
21 breaks, to be able to calculate what the production
22 would be per shift. And then we multiply it across
23 whether we're going to utilize two shifts or three
24 shifts. And for ultimate capacity of course we'll use
25 three shifts. We typically do not include any

1 Saturday or Sunday overtime in those capacity numbers.

2 COMMISSIONER LANE: Okay, so in the data
3 that we have in our report, is that based upon three
4 shifts, five days a week?

5 MR. MILLER: That is correct.

6 COMMISSIONER LANE: And 365 days a year?

7 MR. MILLER: Typically you'd use around 250
8 days.

9 COMMISSIONER LANE: And did you use that
10 same method throughout the period of investigation?

11 MR. MILLER: That's correct.

12 COMMISSIONER LANE: Okay, thank you. Okay,
13 please describe the efforts Parker has made for
14 research and development and/or capital expenditures
15 in an effort to improve productivity efficiency. And
16 what has been the impact of such efforts on your
17 prices, production, sales volume, and capital
18 expenditures?

19 MR. MILLER: On the frontseating service
20 valves, we've made significant investments in
21 machining centers that produce the parts from barstock
22 complete in one cycle, they don't have to be machined
23 in multiple cycles. It improves significantly on the
24 quality because the parts are only put in the machine
25 once, they don't have to be moved. Very high

1 capability, they're also very fast. Multiple
2 operators can run multiple machines.

3 Once they're through the machining operation
4 they go into the assembly operation. Parker has made
5 significant investments on automation of the furnace
6 up front and then through the whole assembly, testing,
7 and copper forming and bending portion of the product
8 line so that we can minimize the amount of labor
9 impact that goes in and improve the first run yield or
10 the quality of the product through the cycle.

11 COMMISSIONER LANE: Okay, thank you. Thank
12 you, Madam Chair.

13 CHAIRMAN ARANOFF: Commissioner Williamson.

14 COMMISSIONER WILLIAMSON: Thank you, Madam
15 Chairman. Mr. Nelson, in your response to one of Vice
16 Chairman Pearson's questions, you mentioned that
17 Parker has production facilities in China. Does
18 Parker produce FSVs in China? And if so, where are
19 these sold?

20 MR. NELSON: We do not make any frontseat
21 service valves in China. Any frontseating service
22 valves that would be made in China this configuration
23 would be supplied under the North American market. We
24 make all ours in Indiana.

25 COMMISSIONER WILLIAMSON: Okay, thank you.

1 MR. NELSON: I guess I would like to add
2 that we have looked at source and components from
3 China and sourcing, actually having manufacturing,
4 we've never been able to get to the price points that
5 we are actually getting in Indiana with the
6 productivity improvements that we've made at that
7 facility.

8 COMMISSIONER WILLIAMSON: You're saying that
9 if you were producing in China you would have to
10 produce?

11 MR. NELSON: Yeah, we could not match our
12 pricing that we have here when you take into the cost
13 of any type of shipping, manufacturing, all the inputs
14 that you need, we could not get to the point where we
15 could make it lower than what we can do in Indiana.

16 COMMISSIONER WILLIAMSON: Okay, thank you
17 for that clarification. Parker states in its brief on
18 page 12 that there's a lengthy qualification process
19 for OEM customers. Please describe this process and
20 tell me what is required of a producer to meet it, and
21 how long does it take?

22 MR. MILLER: The qualification varies
23 depending on the customer. It could take anywhere
24 from six months up to two years depending on that
25 customer. Basically the first step would be, if the

1 customer has a specification set forth for the service
2 valves. In many cases when we started in the business
3 it was our specification that they used for the
4 frontseat services valves, so they just took our
5 documentation and used it for their products.

6 So first you have to agree on what those
7 specifications are. They may include the amount of
8 reseals the valve must withstand, the pressure that it
9 must withstand. It would also include, does it
10 require a UL certification and those type testing. It
11 also may include salt spray to understand what kind of
12 corrosive behavior and how it acts on the braised
13 joints in the valve itself and in the cap seals. So
14 we'll go through that type of repeated testing.

15 It'll also include what we call high-low
16 temperature testing, where, you know, a unit may sit
17 out before it's installed in very cold weather or it
18 may be in very hot trucks. So it has to withstand
19 high temperatures and low temperatures and not leak,
20 okay? So we have to go through that testing prior to
21 getting approvals. And then once that's done we will
22 do what we call a PPAP, or a quality process, that we
23 go through and submit samples to customers.

24 The customers will put them on units in
25 testing, some customers even go through very detailed

1 testing in that they put units in environmental rooms,
2 run them, they look at their performance, their
3 pressure drop, they'll also look to see, you know one
4 OEM is very famous for making it snow in Texas once a
5 week where they'll actually run snow and ice over the
6 product to see how it's responding. So it can be very
7 lengthy because it's very critical that these valves
8 do not leak, because otherwise the unit would arrive
9 and be dead if you will with no refrigerant in it
10 because it leaked out the valve before they operated
11 it.

12 COMMISSIONER WILLIAMSON: Now once you
13 qualify, does an OEM test periodically or sample test
14 the valves that are being shipped?

15 MR. MILLER: Not to my knowledge. Once it's
16 qualified, they just look at field performance and if
17 there's any field issues related to it.

18 COMMISSIONER WILLIAMSON: So any complaints
19 about quality would have to result from someone
20 reporting that the unit failed?

21 MR. MILLER: That is correct. And we track
22 those, any rejects that come back from customers,
23 we'll track those.

24 COMMISSIONER WILLIAMSON: Thank you.

25 MR. MILLER: And those will be included in

1 the report.

2 COMMISSIONER WILLIAMSON: In its prehearing
3 brief, Sanhua contends that Parker is seeking
4 protection of the U.S. government in order to restore
5 market power as a monopoly. Mr. Danin, this is
6 probably for you, are you familiar with any prior
7 Commission investigation in which the domestic
8 industry held a monopoly position in a market and lost
9 marketshare to competing firms from one country?

10 MR. DINAN: Off the top of my head, I'm not
11 aware of that. Although I will admit I haven't looked
12 at that specific legal issue. We could respond to
13 that in the posthearing brief.

14 COMMISSIONER WILLIAMSON: Okay, yeah I would
15 appreciate it if you could, and if there was, and also
16 ask the question whether or not the Commission made an
17 affirmative determination.

18 MR. MAGRATH: And I cannot think of one
19 either, and I've been doing this for 25 years. And
20 the argument itself is bizarre considering the
21 performance of Parker and its financial and trade
22 indicators over the period of investigation. And
23 second, this is what Respondents often do, they try to
24 set up a straw man where it's, if the Commission makes
25 an affirmative determination and the dumping duties go

1 through well that's going to restore a monopoly and
2 there'll be no competition in the United States.

3 All an affirmative determination is going to
4 do is restore fair pricing in the market. There'll be
5 no physical restrictions, no quotas on Chinese
6 frontseating service valves. They can sell as many as
7 they can in the United States given that they're going
8 to have to price fairly. So we are at a loss to
9 respond to this entire monopoly argument.

10 MR. DINAN: If I may add, in amplifying my
11 last response is that I've read an awful lot of
12 Commission decisions and I'm not aware of one. But
13 again, we will do that specific research and respond.
14 But I would with respect submit that this monopoly
15 charge again is made without a great deal of substance
16 or evidence to back it up. First of all, in the
17 Sanhua brief they do not go through anything that
18 approaches a traditional market power analysis much as
19 an antitrust type analysis would require. They just
20 make the charge.

21 And I would also point out, and this is in
22 the public domain, Parker, about the year 2000,
23 purchased another FSV manufacturer in the United
24 States by the name of Aeroquip, and that purchase was
25 fully vetted and analyzed by the Federal Trade

1 Commission and approved and allowed. So the
2 governmental authorities charged with enforcing the
3 monopoly laws of the United States have certainly not
4 seen any issue here.

5 And then I think we go back to a much
6 earlier question, the discussions of what are the
7 market power of the buyers in this market? And I
8 think the answer showed that the buyers have
9 tremendous market power. So we will answer the
10 specific question in the brief, but we would submit
11 that the charges of monopoly are really not made with
12 any kind of factual or textual analysis to back it up.

13 COMMISSIONER WILLIAMSON: Thank you for that
14 clarification. In its prehearing brief on page 13,
15 Sanhua accuses Parker of operating inefficiently, and
16 they provide specific examples which are business
17 proprietary. So I was wondering if any of you folks
18 in your brief, maybe you could address these charges.

19 MR. DINAN: Yes.

20 COMMISSIONER WILLIAMSON: Have any of
21 Parker's customers been put on allocation or has
22 Parker refused to sell to any customers because of
23 capacity constraints or for any other reason?

24 MR. NELSON: Not on frontseat service
25 valves, no.

1 COMMISSIONER WILLIAMSON: Okay, thank you.
2 Given the current economic downturn, have you any
3 evidence to suggest that homeowners are choosing to
4 repair parts of their air conditioning units like the
5 condenser units? I think we sort of got to this
6 earlier but I was just wondering if there's any trends
7 there.

8 MR. MILLER: When you look at the market,
9 again 70 percent of it's in replacement type market
10 and the other 30 percent's in new home construction.
11 I believe your question's really targeted more towards
12 the replacement market, the 70 percent. That downturn
13 really only happened in the fall, around September
14 October in the downturn cycle. And luckily there
15 hadn't been a lot of need for air conditioning thus
16 far in the industry. But we definitely are expecting
17 that to be the case, that people will repair versus
18 replace, and that will affect somewhat the market
19 going forward.

20 COMMISSIONER WILLIAMSON: Thank you. Thank
21 you for those answers.

22 CHAIRMAN ARANOFF: Commissioner Pinkert.

23 COMMISSIONER PINKERT: Thank you, Madam
24 Chairman. Staying with you, Mr. Miller, do you have
25 any projections that you can give us in the

1 posthearing regarding the growth of the replacement
2 market given the downturn in the economy?

3 MR. MILLER: Again, when you look for 2009 I
4 believe the estimates are somewhere around five
5 million units would be sold, four and a half to five
6 million units will be actually manufactured and sold
7 by the OEMs, which is a sharp downturn compared to
8 previous years.

9 COMMISSIONER PINKERT: Thank you. Now going
10 back to the period 2005 to 2006, can you explain what
11 caused the trend in Parker's financial performance
12 during that period? I would note that from 2005 to
13 2006 there was only a modest increase in subject
14 shipments. So is it the subject shipments or is it
15 something else during that period?

16 MR. MILLER: From 2005 to 2006 there was, it
17 was during the transition of the minimum sear ratings
18 from 10 sear to 13 sear. So during that timeframe you
19 saw a huge spike overall in the industry as far as
20 running units to build up enough inventory prior to
21 the cutoff date on the 10 sear manufacturing. What
22 the OEMs did that year is they ran very consistently
23 all year long. They never backed off in the fall,
24 which even though we had already lost significant
25 portion we were able to run our manufacturing lines

1 consistently throughout the year, which does help us
2 in contrary to a very seasonal workforce.

3 MR. MAGRATH: But the profitability still
4 went down because they had begun to lose these
5 contracts, they didn't have the gross volume of
6 business. They may have had better operating rates
7 but they didn't have the gross volume of business and
8 they were under pressure to negotiate contracts at the
9 China price. So the profitability went down and of
10 course it really tanked in 2007 when as the raw
11 materials costs really surged they weren't allowed to
12 charge prices that adequately covered those increases
13 in raw material costs. That's the gist of their
14 profit story.

15 COMMISSIONER PINKERT: Well just staying
16 with you for a moment, Dr. Magrath, are you saying
17 that in that period, 2005 to 2006, that there was
18 price suppression in the industry?

19 MR. MAGRATH: Yes, I wish to look at the
20 data once again and we'll cover that more in our
21 posthearing brief. But there was price suppression
22 throughout the period, the pricing didn't go down but
23 their profitability went down and that would suggest
24 price suppression.

25 COMMISSIONER PINKERT: Thank you. If

1 there's anything you can add in the posthearing on
2 that issue, that would be helpful.

3 MR. MAGRATH: Thank you.

4 COMMISSIONER PINKERT: Now another issue for
5 the posthearing, to the extent that you have the
6 information could you give us some details regarding
7 why some of the purchasers in table D-1 switched
8 suppliers? The information is confidential so I can't
9 discuss it publicly, but if you can include that in
10 the posthearing I'd appreciate it. Is that possible?

11 MR. DINAN: Yes, we will do that.

12 COMMISSIONER PINKERT: Thank you.

13 MR. HUDGENS: Yes, could I make a comment
14 regarding your previous question regarding price
15 suppression?

16 COMMISSIONER PINKERT: Certainly.

17 MR. HUDGENS: If you look at the pages V-9
18 through V-11, you'll notice that there's significant
19 underselling throughout the period but you'll also
20 know that the quantities shipped by Chinese imports
21 significantly increased between 2005 and 2006. So
22 particularly like table D-1, if you look at the
23 Chinese shipments at product 1, you compare those to
24 2005 to 2006, there's a significant increase, and
25 that's true for all three products.

1 COMMISSIONER PINKERT: Thank you. Now other
2 than the decline in the housing market, are there any
3 other reasons why U.S. demand for FSVs has decreased?

4 MR. MILLER: It depends on which years
5 you're talking about. When they came out of the 10 to
6 13 sears shift, there was excess inventory because
7 they had prebuilt a lot of 10 sears. So when you're
8 going into 2006 you'll see a little bit more of a
9 dropoff than was actually market related because they
10 had actually prebuilt inventory.

11 COMMISSIONER PINKERT: What about regulatory
12 requirements or the regulatory environment, has that
13 had an impact on demand going forward or throughout
14 the period?

15 MR. MILLER: There was the minimum energy
16 efficiency, which is the sear, which had an impact
17 only on when the units were being built. The service
18 valves continued to be used on the 13 sear units as
19 well as the 10 sear unites. So that had no impact as
20 well.

21 COMMISSIONER PINKERT: That completes my
22 questions for this round. Thank you.

23 CHAIRMAN ARANOFF: Can you explain why
24 toward the end of the period of investigation that
25 we're looking at as other production related

1 indicators for the domestic industry are declining
2 productivity seems to improve? Were there particular
3 steps that the company took during this later time
4 period?

5 MR. MILLER: I believe we can further
6 investigate that, but what I would assume was that we
7 actually picked up additional business at one of our
8 OEMs during those timeframes since this action was
9 taken. So we actually increased some business from
10 one of the two remaining OEMs that we had.

11 CHAIRMAN ARANOFF: Okay.

12 MR. HUDGENS: Chairman Aranoff, I think the
13 main reason that productivity increased is that they
14 were forced to reduce their employment levels
15 tremendously over the period of investigation. So the
16 Commission calculates productivity based on
17 employment, employment hours worked over production,
18 and they are producing more with fewer employees.

19 CHAIRMAN ARANOFF: Okay, that may be the
20 explanation. Thank you. But there's one thing I just
21 wanted to clarify, and it was right at the beginning
22 where there was this discussion of why having a second
23 force may not be a factor that's leading purchasers to
24 Chinese producers, and I think the statement was made
25 at that time that five of the seven OEMs are sourcing

1 solely from Chinese sources. But I just wanted to get
2 a clarification, are you aware whether each one of
3 those purchasers is purchasing from only one Chinese
4 sourcer or are there some that are purchasing from
5 more than one Chinese source?

6 MR. NELSON: Each one of those are, and what
7 you said is correct and they were looking initially to
8 dual source, but each one of those five are now
9 purchasing from one sole manufacturer in China, either
10 Sanhua or Dun An, but not a combination of both.

11 CHAIRMAN ARANOFF: Okay, I just wanted to
12 get that clarified for the record.

13 MR. MAGRATH: You know Commission, if I
14 could remark about something that was related that was
15 said a little while ago. The witnesses said that the
16 OEMs really aren't familiar with other OEMs about how
17 they do the frontseating service valves and the market
18 and the prices, but Parker and the Chinese are very
19 familiar with each other because they bid on the same
20 contract, they bid the same requirements, and they are
21 bidding to the same price targets. So Parker knows a
22 lot about the Chinese and vice versa in terms of these
23 contracts.

24 CHAIRMAN ARANOFF: Okay. A couple of threat
25 related questions. The government of China is

1 reported to have eliminated export tax rebates on this
2 product since sometime in 2006. Are any of you aware
3 of the current status of the tax rebate on this
4 product, particularly whether it might have been
5 reinstated as has been the case with some other
6 products?

7 MR. MAGRATH: Excuse me, last night I had a
8 brief conversation with our subsidy expert back at the
9 firm, and he feels that the export tax rebate has been
10 reinstated on these products, but we'll wait and we'll
11 submit that evidence, we'll submit the status to the
12 best of our knowledge in the posthearing brief.

13 CHAIRMAN ARANOFF: Thank you. In your
14 postconference brief you discuss the reasons why you
15 feel that in the foreseeable future there are still
16 only going to be the two foreign producers supplying
17 the U.S. market. In the event that the Commission
18 reaches the issue of threat, do you still believe it
19 to be the case that there are no other potential FSV
20 producers in China, or for that matter in other
21 countries, that the Commission should consider in a
22 threat analysis?

23 MR. MAGRATH: Madam Chairman, we
24 congratulate the Staff actually for turning up a
25 number of other frontseating service valve producers

1 or what appear to be frontseating service valve
2 producers in China. What the record shows, not only
3 in terms of Parker but in terms of another supplier
4 importer in the market early in the period of
5 investigation that was really sort of intimidated and
6 like Parker couldn't make their Chinese facilities
7 work.

8 They couldn't produce valves in China to the
9 price level of Sanhua and Dun An, so they left the
10 market as well. That's in the confidential record.
11 But going forward the Staff has identified several
12 manufacturers in China that of course could be
13 exporters if there's a negative determination in this
14 case.

15 CHAIRMAN ARANOFF: Okay. One last question.
16 We've talked a good deal about price suppression and,
17 you know, there's evidence on the record concerning
18 the relationship between costs and prices from which
19 you could perhaps draw the conclusion of a cost price
20 squeeze. As you know the statute refers to
21 suppressing price increases that otherwise would have
22 occurred to a significant degree. So I understand
23 that costs are rising but also that demand slowed
24 during the period of investigation or even maybe
25 declined. Under those circumstances, how should we

1 assess whether price increases otherwise would have
2 occurred?

3 MR. MAGRATH: Madam Chairman, if you'll
4 allow me to be an economist here for a minute, it's a
5 hat I don't really relish putting on, but this good is
6 pricing elastic. This is a necessary part of an air
7 conditioner unit. On the other hand, as has been
8 testified already by Respondent attorneys, it has a
9 low cost share in the total cost of an air
10 conditioning unit.

11 So when you have a low price elasticity that
12 means that suppliers in the market can raise their
13 prices without having a concomitant restriction in
14 demand. In other words these air conditioners are
15 going to be produced, they're going to be using
16 frontseating service valves, and they have such a low
17 cost share in the end unit that they could accept and
18 they would accept a price increase if the market were
19 normal.

20 CHAIRMAN ARANOFF: To what extent in
21 performing that kind of analysis should we be taking
22 into consideration the next downstream step with the
23 relative elasticity of demand for the compressor or
24 for the whole air conditioning unit? And how does
25 that affect your analysis regarding demand and

1 elasticity?

2 MR. MAGRATH: One of the factors, and this
3 was brought up more in the preliminary phase of this
4 investigation, one of the factors buoying the market
5 is that air conditioning units in the United States
6 are really standard for any new housing construction,
7 even if it's just starter homes or very cheap homes,
8 that they have central air conditioning, which is a
9 split air conditioning system which contains
10 frontseating service valves.

11 MR. DINAN: I might add that when you look
12 at the elasticity for the air conditioners, the 30
13 percent of the market that's new housing starts,
14 obviously that part of the market is directly affected
15 by how many houses are being built because we know
16 that that number has significantly decreased in the
17 last six to eight months.

18 On the repricement, which are the existing
19 units, there it's an awful lot more inelastic as Vice
20 Chairman Pearson pointed out most people, particularly
21 depending on where you live, find it pretty much an
22 essential to be able to have an air conditioner and if
23 it breaks that's really the first thing they're going
24 to fixed. So on that part it's pretty inelastic.
25 You'll see a little pushing out on repair as people

1 try to tighten up their belts a bit, but if somebody's
2 air conditioner breaks they're going to get it fixed.

3 CHAIRMAN ARANOFF: Well that's certainly
4 been my practice since I moved to Washington. When I
5 was growing up in Massachusetts it was different. In
6 any event, that concludes my questions for this panel.
7 So I want to thank you very much and I'll turn to Vice
8 Chairman Pearson.

9 VICE CHAIRMAN PEARSON: Thank you, Madam
10 Chairman. Just following up on what you're saying,
11 Mr. Dinan, has anyone clarified what is it likely to
12 cost the consumer to go out and replace his air
13 conditioner if this summer he has the unfortunate
14 circumstance of having the old one die? I mean let's
15 talk, replace the outside unit, the inside unit, the
16 whole works.

17 MR. MILLER: Somewhere around \$1,500 would
18 not be uncommon depending on the size of the unit as
19 far as the replacement cost.

20 VICE CHAIRMAN PEARSON: Yeah, but not just
21 talking cost. Cost is a component, but what's the
22 customer going to have to pay? Is \$1,500 going to get
23 him a new compressor unit for outside and a new, what,
24 exchange unit inside or whatever it's called? I
25 thought the cost would be considerably above that.

1 MR. NELSON: Just to replace the outside
2 condensing unit you're probably in the \$1,500 to
3 \$1,800 range, something like that. However there is a
4 little bit of a dynamic going in that the EPA has
5 outlawed the use of R22 refrigerant for air
6 conditioning, which goes into effect at the end of
7 this year. Which, units now that are being produced
8 are produced with a new refrigerant, R410A which is
9 more environmentally friendly.

10 There's kind of going to be a debate now
11 with people, if they have their condensing unit go bad
12 and they want to put in an R410A system to be
13 environmentally friendly, they'll have to replace the
14 outside and indoor unit which will be \$12,000 to
15 \$15,000 something like that to do that type of a
16 replacement.

17 But if they can get away with just replacing
18 an R22 system, which are some strategies from some of
19 the OEMs to build up their R22 units so that they can
20 have those for people that have a condensing unit that
21 goes bad and say, hey instead of having to buy R410A
22 condensing unit and replace both the indoor and
23 outside unit they can buy an R22 system and just
24 replace the outside unit which would be significantly
25 lower cost, which I would guess that would be a much

1 higher incidence of occurrence based on the economy
2 and the way things are going. The way people are
3 watching their money they're going to do anything they
4 can to just replace the minimal amount of components
5 that they would need to.

6 VICE CHAIRMAN PEARSON: Okay, so a recession
7 beating strategy would be just to replace the outdoor
8 unit if you can, and that creates demand for only one
9 new frontseating service valve rather than two.

10 MR. NELSON: Well there would still be two
11 valves on it, but the valves would all come already on
12 the outside condenser unit.

13 VICE CHAIRMAN PEARSON: Oh, okay, they're
14 outside valves both of them, not one of the above.

15 MR. NELSON: Right.

16 VICE CHAIRMAN PEARSON: Okay.

17 MR. MILLER: The other strategy is if the
18 compressor goes bad or other components, is to
19 actually utilize the service valves for servicing the
20 unit and then just replace the compressor, that's
21 lower cost than replacing the whole unit.

22 VICE CHAIRMAN PEARSON: Okay, good, well I
23 hope not to have to learn a lot more about it in the
24 near term, but one never knows given the age of the --
25 and these frontseating service valves also are a part

1 of heat pump units I assume?

2 MR. MILLER: That is correct.

3 VICE CHAIRMAN PEARSON: Okay. For this type
4 of product I'm a little surprised that there's not a
5 European manufacturer. You know they're good at
6 making things out of brass and machining stuff and all
7 that. Why is it that there's no European firm in this
8 business? No demand there?

9 MR. NELSON: Are you talking on the valves
10 themselves?

11 VICE CHAIRMAN PEARSON: The valves
12 themselves, right.

13 MR. NELSON: Actually the air conditioning
14 units that are used in Europe are typically a
15 minisplit design, which is a completely different type
16 of style of air conditioner that uses a different type
17 of valve that has different connection points on it
18 than what I'd say a frontseat service valve is.

19 VICE CHAIRMAN PEARSON: Why a different
20 technology in Europe than here?

21 MR. NELSON: A lot of air conditioners are
22 installed in old buildings without duct work, they'll
23 have radiant heating and systems inside so there's not
24 internal duct work for a forced air system. So you'll
25 go with typically a unit that has an outside

1 condensing unit and an internal evaporator that is
2 just piping refrigerant from the condenser to the
3 evaporator. The evaporator has a built-in fan to it
4 so it's blowing into the room that the evaporator's
5 installed in.

6 VICE CHAIRMAN PEARSON: Okay, more like a
7 window unit?

8 MR. NELSON: That's what I'd say, yeah.

9 VICE CHAIRMAN PEARSON: Okay, thanks. And
10 the reason for asking, it's just a little bit strange
11 to have three manufacturers in the world that we know
12 of, two in China, one here, and nobody else playing,
13 so I just was curious. The dumping margins Commerce
14 has found appear to be somewhat lower than some of the
15 underselling margins that we observe in this case.

16 And so the question I have, if the order
17 goes into effect that you're seeking, what type of
18 implications would it have for the marketplace? Would
19 Chinese product just come in at a somewhat higher
20 price to pay the dumping margin and still compete
21 successfully or would the margins be high enough to
22 keep Chinese product out?

23 MR. MILLER: I would think with the margins
24 that we saw yesterday from the Department of Commerce
25 that the prices would go up and we would be competing

1 against the Chinese suppliers going forward.

2 VICE CHAIRMAN PEARSON: Have at least a
3 better chance to win some business?

4 MR. MILLER: Right.

5 VICE CHAIRMAN PEARSON: Okay, and the
6 effectiveness of the order is not one of the things we
7 consider, I asked this because conditions of
8 competition in the marketplace, trying to understand
9 how the order would affect those conditions. Dr.
10 Magrath?

11 MR. MAGRATH: Of course, Commissioner
12 Pearson, I mean you'd have to have Sanhua and Dun An.
13 I agree with what Mr. Miller just said, that it would
14 be a competition not a knockout. However the firm
15 that got the larger margin, Sanhua, is the dominant
16 Chinese supplier in the U.S. market. Dun An has
17 Goodman as an account, and Sanhua has all the rest.
18 So we look forward to a very beneficial impact of
19 these margins should the Commission decide in the
20 affirmative in this case.

21 VICE CHAIRMAN PEARSON: Okay, and Dr.
22 Magrath, could you clarify, as I looked at the final
23 margins and compared them to the preliminary margins I
24 could almost think that Commerce had reversed the
25 firms, gotten the firms confused. Do you know

1 definitely do they have it right? And if so, why such
2 a big change from the preliminary margins to the final
3 margins?

4 MR. MAGRATH: Commissioner, I'm never the
5 one to ask because we have people that do the dumping
6 analysis, that's another field, and dumping margins
7 are never high enough for me. But I think they will
8 be effective in this case. You know we had the
9 decision memorandum from Commerce and we were
10 analyzing it, and we might have more to say to the
11 Department of Commerce.

12 VICE CHAIRMAN PEARSON: Okay, fine. Well
13 you know we're required to take the dumping margins
14 into consideration and so I'm just trying to make sure
15 I understand them before I take them into
16 consideration.

17 MR. DINAN: All right, and Commissioner, we
18 actually won't get the data from Commerce until
19 tomorrow for us to be able to run and analyze how they
20 actually calculated.

21 VICE CHAIRMAN PEARSON: Not a problem,
22 posthearing will be soon enough.

23 MR. DINAN: Okay.

24 VICE CHAIRMAN PEARSON: Because we don't
25 vote for several weeks.

1 MR. DINAN: Right.

2 VICE CHAIRMAN PEARSON: Mr. Nelson, you had
3 mentioned earlier that the on-time delivery
4 performance for Parker has been 98 percent and above.
5 And my question is, even if it's 98 percent, you know,
6 that would be 2 percent where there might be a
7 delivery delay, and so have there been situations
8 where customers have gotten short of frontseating
9 service valves and had to slow down or curtail
10 production waiting for the next shipment to arrive?

11 MR. NELSON: How we're measuring our on-time
12 delivery date is to the customer request date. And
13 typically the customer request date, if they call us
14 in an afternoon and say they want 100 valves or 1,000
15 valves tomorrow that's their request date, so that's
16 what we're measuring to whether it's something that's
17 within our lead time or not. So that 2 percent falls
18 into areas where the customer realizes they're out of
19 product and say, we need this stuff tonight or
20 tomorrow, and we just weren't able to meet that. And
21 that's some of the instances that comes out. There's
22 never been instances where shutting down a factory or
23 shutting down a production line.

24 VICE CHAIRMAN PEARSON: Okay, I didn't
25 realize how much variability there might be in terms

1 of their request times, but yes, if you get the call
2 late afternoon and have to get something there by that
3 night, yeah that's.

4 MR. NELSON: And that's actually how the
5 measurements are all, it's a part of good corporate
6 standard that everything's measured to the customer's
7 last request day.

8 VICE CHAIRMAN PEARSON: Okay. This would be
9 the last call question for me. Either now or in the
10 posthearing could you please give me some data on the
11 success rate for your lucky tie?

12 (Laughter.)

13 MR. MAGRATH: Thank you, Commissioner, I
14 would be happy to.

15 VICE CHAIRMAN PEARSON: Thank you.

16 CHAIRMAN ARANOFF: Commissioner Okun.

17 COMMISSIONER OKUN: Thank you, Madam
18 Chairman. And I think based on the questioning I've
19 heard I think I just had one question left, and if the
20 answer is business confidential please just put it in
21 posthearing. Because I may have read it and I've just
22 forgotten at this point in the hearing, with respect
23 to the contracts that you lost, were any of those lost
24 because they invoked a meet-or-release provision or
25 were they lost in the annual renegotiations phase?

1 MR. NELSON: Yeah, they were all
2 renegotiation.

3 COMMISSIONER OKUN: All renegotiation phase.

4 MR. NELSON: Yes.

5 COMMISSIONER OKUN: Okay, thank you for
6 clarifying that for me. And with that I have no
7 further questions, have no opportunity to get the
8 grogger, but want to thank all of you for your
9 responses.

10 CHAIRMAN ARANOFF: Commissioner Lane.

11 COMMISSIONER LANE: Thank you. In what
12 markets do FSVs command the highest price? And maybe
13 you might have to do this in posthearing, and do you
14 have available data on prices that Chinese FSV
15 producers have received from third-world markets
16 throughout the POI?

17 MR. HUDGENS: Commissioner Lane, there are
18 no third-world sales for frontseating service valves.

19 COMMISSIONER LANE: I'm sorry, I couldn't
20 understand?

21 MR. HUDGENS: So there are no third-world
22 market frontseating service sales. The frontseating
23 service market is just in North America, so there are
24 no sales of frontseating service valves to any other
25 market outside of North America.

1 COMMISSIONER LANE: Okay. Okay, thank you.
2 Could you provide posthearing an actual quantification
3 of estimates of what Parker's FSV product line's
4 financial performance would have looked like if
5 imports were fairly traded in the United States? And
6 then please include all relevant volume and price
7 estimates.

8 MR. DINAN: We will endeavor to do that
9 analysis.

10 COMMISSIONER LANE: Okay, thank you. And
11 has Parker had to make any additional reductions of
12 production and related workers in its FSV production
13 line since September 2008?

14 MR. MILLER: The answer to that is yes. We
15 continue to see drops in the marketplace. We are
16 adjusting both salary, indirect labor, and direct
17 labor in relation to that.

18 COMMISSIONER LANE: And can you provide that
19 posthearing, the specifics of that?

20 MR. MILLER: Sure.

21 COMMISSIONER LANE: Thank you. And these
22 questions may have to be posthearing also. Before the
23 POI and/or during 2005, was Parker able to demand a
24 price premium in the U.S. FSV market? And if that is
25 yes, what was the estimated premium as a percentage of

1 price?

2 MR. NELSON: You're talking prior to the
3 period of investigation?

4 COMMISSIONER LANE: Prior to the
5 investigation and during 2005.

6 MR. NELSON: As far as demanding a higher
7 price, we were not. There were other competitors that
8 were still in the marketplace that we were competing
9 with at that time.

10 COMMISSIONER LANE: Okay, so you're saying
11 that before the POI and during 2005 there were other
12 U.S. producers in the marketplace and you could not
13 command a premium for your product?

14 MR. NELSON: That's correct. They had a
15 much smaller share of the business but they were a
16 constant presence to our customers with regards to
17 keeping pricing in check.

18 COMMISSIONER LANE: Okay, thank you. How
19 should Parker's overall financial position in 2008
20 play into the Commission's injury analysis?

21 MR. DINAN: I think that would actually go
22 into a lot of APO material and would intertwine a
23 legal analysis, and we believe it would be most
24 helpful if we put that in the posthearing.

25 COMMISSIONER LANE: Okay, and so I have

1 another one that's probably in that same category.
2 What level of profitability is sufficient to justify
3 Parker's continued investment in the FSV industry?

4 MR. DINAN: And that would definitely fall
5 within the posthearing.

6 MR. MILLER: Well and in the posthearing,
7 Commissioner, we have testified in this hearing that
8 we feel that Parker, the U.S. industry, is still
9 suffering material injury, the import marketshare is
10 larger than ever, and we're still suffering injury in
11 this latest period.

12 COMMISSIONER LANE: Okay, thank you. Madam
13 Chair, that's all I have.

14 CHAIRMAN ARANOFF: Commissioner Williamson.

15 COMMISSIONER WILLIAMSON: Madam Chairman,
16 just one question. Mr. Hudgens, I think you said
17 there were no sales of FSV outside the United States
18 and I wasn't sure whether that was talking about
19 Parker or Chinese producers. In light of that, I was
20 wondering if you could take a look at table 7-2 and 7-
21 3 and could address that question maybe posthearing.

22 MR. MILLER: We will.

23 COMMISSIONER WILLIAMSON: Go ahead.

24 MR. HUDGENS: So the Chinese producers have
25 reported the capacity of frontseating service valves

1 and also another type of valve. It's not frontseating
2 service valves, so those data are included in those
3 numbers, so that's why you have sales to third-country
4 markets. If we're talking about just the subject
5 product, frontseating service valves, it's a North
6 America only product.

7 COMMISSIONER WILLIAMSON: Okay, good. Thank
8 you for that clarification. With that I have no
9 further questions. I want to thank the panel for
10 their testimony.

11 CHAIRMAN ARANOFF: Commissioner Pinkert.

12 COMMISSIONER PINKERT: I have nothing
13 further for the panel but I want to thank you, and I
14 look forward to the additional information.

15 CHAIRMAN ARANOFF: I'll just ask actually
16 that as you're making your clarifications for
17 Commissioner Williamson, there's been a lot of
18 reference there only being a North American market,
19 that would include places that are not in the United
20 States such as Canada or Mexico or Central America.
21 So to the extent that that plays into your answers to
22 the questions I think that would be a helpful
23 clarification. Thank you. Are there any other
24 questions from Commissioners?

25 (No response.)

1 CHAIRMAN ARANOFF: Are there any questions
2 for this panel from the Staff?

3 MR. DEYMAN: I'm George Deyman, Office of
4 Investigations. The Staff has no questions.

5 CHAIRMAN ARANOFF: Okay. Mr. Craven, does
6 your panel have any questions for this panel?

7 MR. CRAVEN: Actually I do have two quick
8 questions. They said there were other producers in
9 the U.S. of FSVs during the 2004 2005 in response to
10 Commissioner Lane. Who were those other producers?
11 Is that something that you can tell us?

12 MR. NELSON: At that time it was Chatleff
13 and it was doing a North American manufacturing. And
14 there were companies also importing product from
15 overseas.

16 MR. CRAVEN: And the second --

17 MR. MILLER: Willspec. That company was
18 Willspec, sorry.

19 MR. CRAVEN: And the second question is,
20 there was a reference to the purchase of Aeroquip and
21 the approval by the FTC. Did Parker make a Hart-
22 Scott-Rodino filing? And if so, is that something,
23 since those are not publicly available, is that
24 something that they could put in the confidential
25 record? Would they be willing to do that?

1 MR. DINAN: I will state for the record that
2 that submission was made. I would also submit an
3 object to that request, it's way outside the scope of
4 the investigation and would impose, I mean they're
5 very very voluminous documents.

6 CHAIRMAN ARANOFF: I actually will need to
7 consult with Staff. I think normally that would be a
8 request that would need to come from the Commission
9 itself, so I'll ask our Staff whether a request coming
10 from the Respondents is something that the Commission
11 has ever, I'm not sure what the right word it,
12 enforced. So we'll check on that and get back to both
13 parties with respect to the status of that request.

14 MR. DINAN: Thank you.

15 MR. CRAVEN: And I have one more question.
16 According to the Wall Street Journal there are "price
17 gurus" at every one of Parker's 115 divisions. Are
18 any of you the price guru, the person who sets the
19 price for the climate systems?

20 MR. NELSON: Neither one of us are the
21 pricing guru. The pricing guru does work for me and
22 report to me at our division. It is a strategic
23 pricing manager, and it is their job really to track
24 market prices and, you know it's funny because it's
25 been conveyed to our customers via our competition

1 that they're price gougers or whatever, but actually
2 the intent and their control of the job is to be able
3 to price to the market and capture and record and
4 monitor how these prices are being accepted or
5 rejected by our competition. They're our buyer to
6 buyer customers.

7 MR. CRAVEN: I have nothing more. Thank
8 you.

9 CHAIRMAN ARANOFF: Okay. Well thank you
10 very much to the morning panel, for your time, for all
11 your answers, and for the additional information that
12 you're going to provide us in your posthearing
13 submission. It's been extremely and we always
14 appreciate it when you take time away from your
15 business. It's the best way for us to learn directly
16 in the industry about the facts of our investigation.
17 So thank you. We are going to take a lunch break and
18 for purposes of round numbers we'll return at 1:00.

19 I need to remind everyone that this room is
20 not secure. You should not leave any confidential
21 information in this room or in fact anything of value
22 that you're not going to be keeping your eye on. So
23 we will resume at 1:00 and until that time this
24 hearing stands in recess.

25 //

1 (Whereupon, at 12:07 p.m., the hearing in
2 the above-entitled matter was recessed, to reconvene
3 at 1:00 p.m. this same day, Tuesday, March 9, 2009.)
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1 Mr. Mark Jin, the Vice President of Sanhua International,
2 and Mr. Tony Guo, the marketing manager.

3 My remarks today will be comparatively brief.
4 This is a single member industry with a limited number of
5 customers and as the foreign industry also only consists of
6 two producers, much of the data is confidential and can only
7 be discussed as trends in today's hearing. However, we are
8 here to address the questions may have. We will answer
9 these questions the extent that we can and we will answer in
10 our post-hearing brief any questions that we cannot answer
11 due to constraints on the discussion of confidential
12 information.

13 I would like to start by summarizing Sanhua's
14 position. Sanhua believes there is no dispute as to the
15 data. The staff has done a very good job of collecting
16 data. Demand is tied to the sale of residential split air
17 conditioners. These sales are tied to the demands for units
18 in new construction and in the replacement market. As the
19 housing market has been in decline due to the current
20 economic crisis, so, too, has the demand for residential
21 split air conditioning units and so, too, has been the
22 demand for frontseating service valves. But that's really
23 not relevant to your discussion today.

24 There is no question that capacity utilization in
25 the U.S. has declined and that inventory levels have

1 decreased. Production of FSVs in the U.S. has also
2 decreased. Commercial shipments have decreased. The
3 indicia all suggest that the U.S. industry is not in the
4 same position that it was before Chinese product entered
5 into the market. But, again, that is really not relevant to
6 our discussion today.

7 The key question is why? Is this the result of
8 unfairly-traded imports, as Petitioner would have you
9 believe, or is it caused by something else? We submit that
10 any change in condition in the domestic industry is the
11 result of the loss of market power. Essentially, a loss of
12 monopoly power, although market power isn't quite as
13 significant as monopoly power.

14 We, also, submit that such harm should not be the
15 cause for relief. Let's start with the question of market
16 power. Does Parker have market power. In the preliminary
17 investigation and again this morning, the domestic industry
18 argued that its declining market share is evidence that it
19 does not have market power. This, however, misconstrues
20 Sanhua's argument. Sanhua is not arguing that Parker
21 presently has market power. In fact, it appears that the
22 purchasers now have the market power. Quite to the
23 contrary, Sanhua submits that Parker no longer has market
24 power because it is facing competition, fair competition.
25 Sanhua contends that Parker had market power and controlled

1 the market until the Chinese producers entered the market.

2 The public pre-hearing staff report is quite
3 clear. Parker is the only U.S. producer of the subject
4 merchandise since the withdrawal of Chatliff Controls of
5 domestic production. The date and the reason of the
6 withdrawal of Chatliff Controls is not on the public record,
7 but we submit that the Commission should take notice of the
8 reasons for this withdrawal, which reason is on the record
9 and reflected in the staff report.

10 The public staff report and the testimony of
11 Parker support the proposition there are no substitutes for
12 FSVs nor FSVs available from any other source. While we do
13 not fully agree with this statement, as at some pricing
14 point far above fair market value for FSVs and users would
15 be forced to redesign their systems to use ball valves or
16 backseating valves, for purposes of today's analysis, we
17 will take this assertion as a given. Thus, without the
18 subject imports, Parker would be the sole producer of a
19 product, which is an essential component of someone else's
20 product and for which there is no substitute. Whether this
21 is substantial market power or monopoly is simply a question
22 of semantics.

23 What did Parker do when they had substantial
24 market power? Both the public and confidential records are
25 once again clear. As noted in the public pre-hearing staff

1 report at V4, as alleged by both Sanhua and U.S. Air
2 Conditioning Manufacturing Goodman, Parker kept prices of
3 FSVs high, mandated supply agreements with no competition or
4 commercial exit times, and ignored customer complaints
5 regarding quality and delivery terms. These are all actions
6 of a market participant with nearly unlimited market power,
7 operating without fear of making unreasonable demands on its
8 customers, because it knows its customers have no option.

9 The confidential record also talks about the
10 pricing behavior of Parker when it had market power. While
11 this data is confidential, we can still talk about Parker's
12 pricing policies. Actually, we can let Parker's CEO, and I
13 apologize for the pronunciation of this name, Donald Wash -
14 I'm sorry, Parker, how do you pronounce your CEO's name,
15 please - Washkowitz, thank you, very much -- Donald
16 Washkowitz talk about the pricing policies. And in a March
17 2007 article in the Wall Street Journal, he was very open
18 with the Journal about his desire to use market power to
19 squeeze the customer when Parker had this market power. The
20 article was called, "changing the formula, seeking perfect
21 prices: CEO tears up the rules. Parker's Washkowitz weighs
22 market power of 800,000 parts."

23 I'm going to give you a few quotes from the
24 article. The article said, "while touring the company's 225
25 facilities in 2001, Mr. Washkowitz had an epiphany. Parker

1 had to stop thinking like a widget maker and start thinking
2 like a retailer, determining prices by what a customer is
3 willing to pay, rather than what a product cost to make.
4 Such strategic pricing schemes are used by many different
5 industries. Air lines know they can get away charging more
6 for a seat to Florida in January than in August. Sports
7 teams raise ticket prices if they are playing a well known
8 opponent. Why shouldn't Parker do the same thing, Mr.
9 Washkowitz reasoned."

10 The article goes on, "although he decided to adopt
11 strategic pricing on his own, Mr. Washkowitz hired
12 consultants to help each of Parker's businesses
13 painstakingly study its full gamut of products and divide
14 them into categories. A items were high-volume commodities,
15 where there was at least one big competitor helping to shape
16 prices. Other products were divided into B, C, and D items,
17 which fell into increasingly narrow or specialized niches.
18 The final and most narrow group were specials and classics
19 that only Parker produced. What Mr. Washkowitz discovered
20 was that about a third of Parker's products, a huge number,
21 fell into niches where there was limited or no competition
22 or where Parker offered some other unique value."

23 The article goes on to say, "Parker says, most
24 customers accepted the price increases either because they
25 had to or because they accepted the company's rationale.

1 Parker continues finding ways to apply the new approach.
2 The company has, for instance, integrated pricing in its
3 innovation process, aiming to pinpoint and develop products
4 that offer the most potential for price premiums. Once you
5 start doing this, you never stop, said Mr. Washkowitz. It's
6 a different way of thinking that filters into everything."

7 I am now returning to my testimony, as opposed to
8 the article. As that article sets forth, Parker's CEO not
9 only knows about market pricing, he has placed a team in
10 place to seek such pricing. Parker knew that its customers
11 had to accept the price because they did not have
12 alternatives.

13 Sanhua submits that the purpose of the antidumping
14 laws is not to protect unlimited market power, for to do so
15 would essentially prevent fair import competition, as well
16 as unfair import competition. If the damage to the industry
17 is the result of the loss of nearly unlimited market power
18 with the resultant consequence that the industry must now
19 compete on a fair basis, but the industry cannot do so
20 because it cannot shed the years of slough built up during
21 its period of the holder of nearly unlimited market power,
22 then the damage is not caused by unfairly-traded imports.

23 Under Petitioner's rationale, their loss in market
24 share essentially proves injury. Any entity that wishes to
25 be insulated from import competition simply has to acquire

1 its domestic competitors at that point, because any
2 competition would be from imports. Under mechanical
3 application of the law, relief would have to be granted.
4 Certainly, the ITC should not interpret the law in such a
5 fashion as to encourage the development of monopolies and
6 the elimination of fair competition in the United States.
7 We're not asking that the ITC enforce the antitrust laws,
8 simply the ITC consider them as an economic factor.

9 Sanhua also asks whether the Commission knows what
10 Parker told the Department of Justice in its Heart, Scott,
11 Rodino filing when it sought to acquire Aeroquip. Sanhua
12 doesn't have access to this filing. But based on
13 information it has heard, it is confident that if the
14 Commission requested this filing, it would show that, in
15 fact, Parker cited the possibility of imports as its control
16 on its monopoly power, in order to obtain approval of the
17 Aeroquip acquisition.

18 Now that I have set forth the market power of
19 Parker and its use of the market power, I would like to turn
20 back and reexamine the volume of subject imports. In
21 examining the volume of imports, the Commission is directed
22 to consider whether any increase in the volume of imports in
23 either relative or absolute terms is significant. Any
24 increases in the volume, whether absolute or relative, when
25 placed in the context of this industry are not significant.

1 An examination of the confidential data will show this. The
2 confidential data is simply the naturally expected pattern
3 when a party with significant market power, for example, by
4 means of a patent, experiences a loss of that significant
5 market power. Parker's situation may be unique before the
6 ITC, but it is not unique.

7 There are many examples of similar losses of
8 market power due to fair competition. For example, in the
9 drug industry won a patent, a legal grant of significant
10 market power expires. The former patent holder loses its
11 significant market power and the prices that they can obtain
12 for their product drops significantly and new market
13 entrants for that drug obtain market share. This, however,
14 is not the result of unfair competition, simply the loss of
15 significant market power. When considering any decline in
16 the volume and whether they are significant, the Commission
17 should determine whether any such decline is the result of
18 the market power. Where, as here, it can be shown that
19 Parker has lost this market power, then the natural
20 consequence is decline in volume.

21 An examination of prices in light of the
22 significant market power shows significant - shows similar
23 results. In considering the effect of imports on prices,
24 the Commission is directed to consider whether there had
25 been significant price underselling, as compared with the

1 price of domestic like product and whether the imports
2 otherwise depressed price to a significant degree. Once
3 again, the market power of Parker has distorted the data.
4 As reported in the public version of the pre-hearing staff
5 report at page V13, "the data shows that prices of imports
6 from China were lower than the U.S. producer in all 45
7 quarterly comparisons of products one to three, by margins
8 ranging from 11 percent to 45.9 percent." This is neither
9 extraordinary or unusual. When an entity that has been
10 pricing based on market power faces competition for the
11 first time, it will naturally see the competition sell at
12 lower prices to obtain the business. This is a natural
13 consequence of the loss of market power.

14 If this were actually a case of unfair import
15 competition, the data would show underselling in some
16 quarters by the U.S. industry, and importers in other
17 quarters as the U.S. industry reacts to the price
18 competition. The confidential data as set forth in our pre-
19 hearing brief leads to some additional interesting
20 conclusions, which I, unfortunately, am not able to
21 summarize at this time, in this hearings. Where, as here,
22 the underselling is a natural consequence of the nature of
23 the market inherently is not significant.

24 In examining the impact of imports on the domestic
25 industry, again, re-examining the data in light of the

1 market power of Parker, it produces interesting results.
2 The most interesting of these trends are, however,
3 confidential and I would simply direct the Commission to our
4 pre-hearing brief.

5 That accounts for what happened. So, now, I would
6 like to turn to the why. The why can best be summarized by
7 an old aphorism, "If you don't treat the customer as a king,
8 you will soon be a pauper," and Parker has not treated its
9 customer as the king. As set forth in our pre-hearing
10 brief, the traditional Commission indicator show a domestic
11 industry that has not adjusted to a loss of market power.
12 But the loss of market power does not doom a company to
13 failure. Quite to the contrary, a company with market power
14 can compete even after losing this market power, as long as
15 it delivers to the customer what the customer wants. In
16 fact, because the company with market power will have most,
17 if not all, of the customers at the time that competition
18 arrives, it will be in a superior position to compete and
19 should be able to retain much of its market share at fair
20 prices and with equal service. If it does not retain these
21 customers, it is because at best, it took its customers for
22 granted and, at worst, it took advantage of its customers
23 and their lack of choice and they chose to make changes
24 based on that.

25 As set forth in the pre-hearing staff report,

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1 Parker has failed to compete across the board. As set forth
2 in Table 2-5, of the 20 factors in this table, only one U.S.
3 purchaser in a total of five factors found that the U.S.
4 product was superior. Those factors were price, product
5 range, technical support service, availability of consigned
6 inventory, and willingness to assume foreign exchange risk.
7 To reiterate, of 117 listed responses, five found the U.S.
8 products superior and 51 found the Chinese product superior.

9 While this summary analysis is telling, a more
10 detailed examination of some of the more salient points is
11 even more damning to the case of the domestic industry.
12 Initially, as noted in Table 2-1 to the public pre-hearing
13 staff report, the number one factor cited by more than half
14 of the U.S. purchasers was quality. The only other number
15 one factor listed was delivery reliability for one purchaser
16 and compliance to engineering requirements for another. Dr.
17 Magrath suggested that he would bet his lucky tie that the
18 price would be the most important factor. I would take this
19 bet and I look forward to receiving my lucky tie. Price was
20 not listed by a single purchaser as the single most
21 important factor. The number two factor was once again led
22 by quality, which was cited by the only two purchasers, who
23 had not listed it as the most important factor. One
24 respondent listed price, one respondent listed availability,
25 one respondent listed supply, and one respondent listed

1 reliability. It is only when the third most important
2 factor is reached does price become important. In summary,
3 quality was the first or second most important factor for
4 all of the U.S. purchaser, while price was not the most
5 important factor for any purchaser and was only the second
6 most important factor for a single purchaser.

7 Applying these facts, as presented to the
8 Commission, to the customer demands, make it readily
9 apparent as to why Parker has lost business. Many of the
10 factor are again confidential and I would direct you to our
11 pre-hearing brief. But, I would note that it shows quality
12 differences between the domestic industry and Sanhua. It is
13 not actual or perceived quantities alone, which place Parker
14 in a bad light, it is also the response of Parker to the
15 issue. Rather than acknowledge the problem, Parker's
16 response has been that of an arrogant holder of essentially
17 unlimited market power, stating, let them eat cake. As
18 noted in the staff report at 217, Parker's response to the
19 public allegations of Goodman is content that its quality is
20 superior to the industry standard and Goodman standard of
21 200 dtpm. The confidential record can shed light on these
22 claims.

23 It is also telling, as reported in Table 2-5 of
24 the public pre-hearing staff report, that not a single U.S.
25 purchaser reported the U.S. produce as being superior in

1 quality to the Chinese product. If, in fact, Parker's
2 claims that its quality is superior to the industry standard
3 are true, as opposed to Goodman's claims, certainly at least
4 one U.S. purchaser would have reported Parker's quality as
5 superior to that of the Chinese producers. Quality is not
6 the only area in which Parker has failed to compete. The
7 confidential staff report and our pre-hearing brief discuss
8 many of these failings.

9 In sum, is the domestic industry being injured?
10 Perhaps. Is the domestic industry being injured by reasons
11 of imports? No. If the domestic industry is being injured,
12 it is a case of self-inflicted industry.

13 This concludes our direct testimony and after
14 some brief remarks by Mr. Marshak, we will be prepared to
15 address any questions the Commission may have. Thank you,
16 very much.

17 MR. MARSHAK: Good afternoon. I am Ned Marshak of
18 the law firm of Grunfeld, Desiderio. We represent the
19 second Chinese producer, DunAn. We are here for a very
20 limited purpose. We filed our pre-hearing brief solely on
21 the issue of whether the Commission could find whether
22 imports that were subject to an affirmative determination by
23 the Department of Commerce of critical circumstances could
24 seriously undermine the remedial effects of the order.
25 Yesterday, the Department of Commerce reached a negative

1 determination of critical circumstances, which, we
2 understand, makes the Commission's determination moot and
3 you will not raise this issue in your final determination.
4 And we note the Petitioners have not raised this issue and,
5 in fact, this morning, it appears that Petitioners have
6 conceded that the order should not be in effect
7 retroactively because counsel advised it was a loosening up
8 after the filing of the case.

9 So, I am here now really if there are any
10 questions that the Commission may have of our client. We
11 are prepared to answer those questions in a post-hearing
12 brief. Thank you.

13 CHAIRMAN ARANOFF: Well, thank you, and welcome
14 again. This afternoon, we are going to begin the
15 questioning with Commissioner Pinkert.

16 COMMISSIONER PINKERT: Thank you, Madam Chairman,
17 and I would like to thank the panel this afternoon for being
18 here and helping us understand what is going on in this
19 industry.

20 I want to begin with a few questions about your
21 testimony, Mr. Craven. You referred to the years of slough,
22 in which the domestic industry, or I should say Parker
23 allegedly had virtually unlimited market power. And I am
24 wondering how many years of slough are you maintaining that
25 they had to go through?

1 MR. CRAVEN: That's an interesting question. When
2 I talked to the people that, in addition to Mr. Guo and Mr.
3 Jin that told me this, they didn't really quantify a number
4 of years. I will have to find out exactly how many years it
5 is. It is several. It goes back at least to the
6 acquisition of Aeroquip. But, we will expand upon that.

7 COMMISSIONER PINKERT: Thank you. Now, leaving
8 aside how long this period lasted, how did it affect
9 Parker's cost structure, if at all?

10 MR. CRAVEN: There are very interesting
11 confidential information in the staff report, which is all I
12 would have access to. I can't talk about it, because it
13 isn't even summarizable. But, it is discussed briefly in
14 our brief and it's quite clear, if you look at the staff
15 report, what was going on and certain issues. Sorry, I
16 can't say more on that.

17 COMMISSIONER PINKERT: I fully understand. But,
18 to the extent that you can discuss that in your post-
19 hearing, I would be interested in knowing not only how you
20 view the impact on Parker's cost structure, but what other
21 elements of Parker's competitiveness were effected by this,
22 what you call virtually unlimited market power.

23 MR. CRAVEN: Yes, sir.

24 COMMISSIONER PINKERT: Okay. Now, I think you
25 heard the testimony earlier today, I believe it was

1 testimony from the expert that Petitioners have hired, and I
2 am wondering whether you agree with Dr. Magrath's view that
3 your arguments about Parker's inability to satisfy customer
4 demands for quality are inconsistent with the relationship
5 between subject import prices and Parker's prices. Did you
6 hear that testimony this morning?

7 MR. CRAVEN: Yes, I did.

8 COMMISSIONER PINKERT: Okay.

9 MR. CRAVEN: I don't think they're necessarily
10 inconsistent. I think you have to take a look at a couple
11 of factors. And one of these is you have a quality issue,
12 but you also have - frankly, there is a price issue, but
13 it's a question as to what price is the price that the
14 Commission should properly and fairly examine. And, for
15 example, if I am the only producer of Coca Cola and I inform
16 you that I am going to sell my cans of Coca Cola for \$20 and
17 someone else comes in and says I'm selling for 15 and I
18 refuse to change my price, and Coca Cola is actually a
19 dollar product, well, then you have a situation where is
20 that loss - inability to make that monopoly pricing in my
21 theoretical desert, is that something that the Commission
22 wants to protect. And I think that the difficult here is
23 that you have a series of interrelationships that relates to
24 the whole nature of the various factors that interrelate.
25 We tried to expand upon that in the brief. But, it's - I

1 understand his argument. I don't agree with it.

2 COMMISSIONER PINKERT: Well, let me narrow the
3 question a little bit and whether you can answer it here or
4 in the post-hearing, either way is fine. But, I am having a
5 hard time grappling with the idea that if, in fact, this is
6 what happened, with the idea that a higher-quality product
7 would be priced lower than a lower-quality product. Do you
8 understand that line of thinking and can you help me grapple
9 with that?

10 MR. CRAVEN: Sure. The difficulty is that you're
11 looking at two different situations. If there were only two
12 competitors in the market and one produced a high-quality
13 product and the other produced a non-quality product, then
14 you would have a situation where the quality product, no
15 matter what the price, would be able to obtain the market.
16 However, here, we don't have - Parker didn't suddenly have
17 one competitor. Parker had two competitors. So, there is a
18 degree of price control because there are two competitors,
19 in addition to the quality issue. So, the whole market
20 dynamic changed and it changed by the introduction of - it
21 changed it from a duopoly. If we only had one new
22 competitor, it would have been a duopoly, which still
23 provides significant market power. Now, we're dealing with
24 three. And so, I think the problem is the impact of one is
25 effecting the impact on the other and that's - I understand

1 your question and I wish I were more capable of explaining
2 it to you, but that's how I interpret that.

3 COMMISSIONER PINKERT: Thank you. Now, turning to
4 the OEMs, I noted in your testimony that you said it seems
5 presently to be the case that the OEMs have the market
6 power, whereas previously, the producer in the U.S. market
7 had the market power. And I'm wondering if you could help
8 me understand how the OEMs exert the market power in the
9 U.S. market.

10 MR. CRAVEN: Could I have either Mark or Tony -
11 this is really a question I would much prefer to have
12 someone, who actually knows something about the industry in
13 a day-to-day basis talk about that.

14 COMMISSIONER PINKERT: No, that would be great.
15 Thank you.

16 MR. CRAVEN: Mark or Tony, if either of you want
17 to talk about how the OEMs impact on pricing.

18 MR. JIN: I think it's confidential concerning, so
19 I want to address this on the post-hearing.

20 COMMISSIONER PINKERT: Thank you. That would be
21 fine. Now, this next line of questions is probably more
22 appropriate for the company witnesses. I'm wondering what
23 caused your company or companies to enter the U.S. market.

24 MR. JIN: Let me introduce a little bit of myself.
25 My name is Mark Jin and working at Sanhua International for

1 about two years. And why Sanhua wants the products to the
2 U.S. market is because Sanhua already get a good reputation
3 in the last 10 years in the China market. And Sanhua thinks
4 the U.S. market is a very important market for the whole
5 Sanhua group. So Sanhua decided to start sending to the
6 U.S. market and the company sent engineers and sales staff
7 here to promote this market.

8 COMMISSIONER PINKERT: And was it a process of
9 entering the U.S. market? Did it occur over a period of
10 time? Or was it just immediately full speed ahead selling
11 in the U.S. market?

12 MR. JIN: At the very beginning, we also no
13 nothing about the U.S. market. We just entered some like
14 air conditioning exhibition show, to show the markets what
15 product we can produce for them. And we also at that time
16 had confidence. We are doing quite good in China and in
17 East Asia and we can do it in U.S., as well. So, we just
18 entered the exhibition and tried to get some - gather some
19 information and that's what we did.

20 COMMISSIONER PINKERT: Thank you. I see that my
21 yellow light is on. Mr. Guo, did you have something to add?

22 MR. GUO: For example, it took us several years to
23 enter the U.S. market.

24 COMMISSIONER PINKERT: From when to when?

25 MR. GUO: It's very difficult for me to speak

1 about the exact year. Probably, it's back to 2000, around
2 2000 or even earlier.

3 COMMISSIONER PINKERT: Thank you. Thank you,
4 Madam Chairman.

5 CHAIRMAN ARANOFF: Well, Mr. Craven, after I read
6 your brief, I was going back and trying to remember what
7 cases we had seen recently where the argument that you're
8 raising had been successful and the case that I encourage
9 you to take a look at, if you haven't seen it already, is
10 Sodium Metal from France. That was a recent decision where
11 the Commission made a negative determination after
12 concluding that the sole domestic producer lost a lot of
13 business in the United States because it provided inferior
14 service to its customers, even though the subject imports
15 were underselling in a large number of the cases. What is
16 particularly noteworthy about that case, and I think some of
17 it comes out on the public record, if you take a look at it,
18 is the kind of documentation that the Commission had before
19 it from the purchasers detailing exactly what had happened
20 over years in their customer relationships with the domestic
21 producer, so that they were able to really document these
22 failures in service. And at this point, I don't see that
23 quantum of information on the record here, so we're left
24 with something of a he said, she said situation. So, in any
25 event, I wanted to start by encouraging you to take a look

1 at that case and what we had there and see what you can do
2 to replicate that, in support of your argument.

3 MR. CRAVEN: Thank you. I have been looking for
4 cases for single industry and I hadn't found that one.

5 CHAIRMAN ARANOFF: I asked the panel this morning
6 to describe to me generally how the contract negotiation
7 process works in this market and I wanted to give the
8 witnesses here this afternoon the opportunity to also
9 comment on that, to the extent that you might agree or
10 disagree with the way that the negotiation process was
11 characterized earlier today.

12 MR. CRAVEN: I'm sorry, Mr. Marshak, do you have
13 anything? We keep ignoring you?

14 MR. MARSHAK: You can keep ignoring me.

15 MR. CRAVEN: Okay.

16 MR. JIN: Okay. Basically, when our products is
17 interested by the customers and the customer will request us
18 to give them a quotation at the first round. And we will
19 prepare the quotation based on the cost and send to them.
20 After that, they came to test it here our products. And
21 after the product's approval, we will start negotiation of
22 agreement. So, agreement will be negotiated based on all of
23 the terms, the terms of payment and delivery terms and price
24 issue and quality issue and such.

25 MR. CRAVEN: One clarification. Are you

1 negotiating on a single product or multiple products?

2 MR. JIN: In most case, we negotiate on multiple
3 products. A package of products is explained to the
4 customer.

5 CHAIRMAN ARANOFF: Okay. So, we were told that
6 the OEMs, the purchasers prefer to have separate contracts
7 on each product that they buy, including FSVs. Has that
8 been your experience, as well, or you actually are
9 contracting with these air conditioning OEMs for multiple
10 products in one contract?

11 MR. JIN: I think most of our customers are
12 interested in signing a multiple-product contract with us.

13 CHAIRMAN ARANOFF: Okay. This morning, I asked
14 Parker if they could provide details concerning all of their
15 contracts that were in effect during any part of our period
16 of investigation and I would like to ask if each of the
17 Chinese producers, who are represented here, could do the
18 same, basic details, the term of the contract, the price or
19 price formula agreed to, and something about the quantity,
20 whether it was 100 percent of requirements or some other
21 amount. Actual physical numbers of products aren't quite as
22 helpful. But, to the extent you could provide those
23 details, I think it's going to help us to take a look at how
24 things changed in the market, when they changed, and what
25 the terms of each of the contracts were.

1 MR. CRAVEN: No problem.

2 CHAIRMAN ARANOFF: Thank you. The Petitioner has
3 argued - I know, Mr. Craven, in your testimony, you were
4 pointing to parts in our staff report of where purchasers
5 said that quality or availability could be more important
6 factors than price in their purchasing decision. The
7 Petitioners argued that once a producer's FSVs have been
8 qualified by a purchaser, then quality and availability are
9 basically presumed and, at that point, price is really the
10 determining factor for sales. Would you agree or disagree
11 with that characterization of the market?

12 MR. JIN: Ma'am, I'm sorry, could you repeat your
13 question again?

14 CHAIRMAN ARANOFF: Once a purchaser qualifies your
15 product, at that point, would you say that quality and
16 availability of the product are presumed, so that price is
17 the most important factor determining who gets a sale?
18 That's the way that the Petitioner has characterized the
19 market.

20 MR. JIN: I think the quality is the most
21 important thing, because in the whole air conditioner cost,
22 the frontseating service valve is a very small portion of
23 the air conditioner. And if the quality cannot meet the
24 customer's standard, it will cost not only the call back,
25 the service, but they also lost their reputation of the

1 customers. So, they are very careful when they try to use
2 another supplier, especially international suppliers. So,
3 the quality and the deliveries are mostly what they're
4 concerned about.

5 CHAIRMAN ARANOFF: This is another case on the
6 record where we have kind of a he-said, she-said situation
7 and I think we really need, in order to resolve this,
8 documentation to support the point of view that there is
9 something superior about the products, the importer
10 products, as compared to the domestic product. It seems as
11 though both domestic and imported products have been
12 qualified by domestic purchaser.

13 MR. CRAVEN: Well, would you like us to put on
14 record, as a part of our post-hearing brief, some additional
15 documentation we might have from the customers regarding
16 this very issue?

17 CHAIRMAN ARANOFF: I mean, if there is information
18 from the customers -

19 MR. CRAVEN: Absolutely.

20 CHAIRMAN ARANOFF: - obviously, we would be happy
21 to have it. Any internal data or metrics that either of the
22 companies has on how your products perform and various
23 quality characteristics, that sort of thing, would be
24 helpful.

25 MR. CRAVEN: Absolutely. And I would just point

1 out that qualification and quality are shades of the same
2 color, but they're not the same color. I may be qualified
3 to provide a product, but that doesn't mean that my product
4 is of the same quality as someone else, who is qualified.

5 CHAIRMAN ARANOFF: So, you're arguing that
6 qualification is kind of a floor.

7 MR. CRAVEN: Qualification is a floor, not a
8 ceiling. And as we've put on the record, Sanhua's defect
9 rates are exemplary and consistently one of the highest, if
10 not the highest suppliers to their customers of any product.
11 And I realize that some of those standards may be beyond
12 FSVs, but the fact is that, as we've shown in our pre-
13 hearing brief, there are companies where they are the number
14 one supplier to the company; not the number one supplier of
15 FSVs to the company, they are the number one supplier of any
16 product that the company purchases, which inherently
17 suggests an overall quality standard, which the
18 manufacturers understand and appreciate.

19 CHAIRMAN ARANOFF: Okay. Well, any help that you
20 can provide. We do have a number of cases we see where
21 purchasers will say that quality and availability are the
22 most important and price is secondary and, yet, as it turns
23 out, there's plenty of suppliers in the market, who can meet
24 the quality and availability criteria and really the
25 competition is based on price. So, if that's not the case

1 here, I think we're going to need more than we have now to
2 document that. And I will now turn to Vice Chairman
3 Pearson.

4 VICE CHAIRMAN PEARSON: Thank you, Madam Chairman.
5 Permit me, also, to extend my greetings. It's always very
6 helpful to have representatives of the exporting firms with
7 us. So, I appreciate that you are here.

8 Mr. Jin, let me ask a few more questions about
9 your business. Does Sanhua International, Inc. conduct any
10 business other than importing into the United States
11 products that are manufactured by Zhejiang Sanhua Co., Ltd.?

12 MR. JIN: We do. We also import product from
13 Zhejiang Sanhua Climate and Price Control Co. Ltd. And we
14 also import products from Chungjo Renco -- Corp. Ltd.

15 VICE CHAIRMAN PEARSON: Okay. The other firms
16 that you mentioned, are they related firms or are they
17 entirely independent?

18 MR. JIN: They are related firms.

19 VICE CHAIRMAN PEARSON: Okay. All under the
20 Sanhua group company?

21 MR. JIN: Yes.

22 VICE CHAIRMAN PEARSON: Okay. Was I correct to
23 understand from your earlier response that you import some
24 products other than frontseating service valves that are
25 used in air conditioning units?

1 MR. JIN: Yes, correct.

2 VICE CHAIRMAN PEARSON: What products are those?

3 MR. JIN: They are the reversing one, which is
4 used in the heat pump air conditioner unit. The function is
5 to reverse the direction of the refrigerant to make the air
6 conditioner heating in the winter and cooling in the summer.
7 And another one is our cumulator. These cumulators will
8 reduce the potential risk for the refrigerant to act as a
9 compressor. And we also import the filter dryers where it
10 filters impurities in the air conditioning system. We also
11 import the solenoid valve.

12 MR. CRAVEN: Solenoid. The other one was a
13 cumulator.

14 MR. JIN: The solenoid valve is a cutoff valve
15 contributed by solenoid coil, solenoid coil.

16 VICE CHAIRMAN PEARSON: Okay. So, when you sit
17 down to meet with your customers, the original equipment
18 manufactures, you have several things to talk about, not
19 just frontseating service valves?

20 MR. JIN: Yes.

21 VICE CHAIRMAN PEARSON: How many years has Sanhua
22 International conducted business in the United States?

23 MR. JIN: It's back to 2003, I think.

24 VICE CHAIRMAN PEARSON: So, six years, more or
25 less?

1 MR. JIN: Six, seven years.

2 VICE CHAIRMAN PEARSON: Okay. Are frontseating
3 service valves sold in other parts of the world than North
4 America?

5 MR. CRAVEN: I think we need a clarification. Are
6 they bar stock service valves or are we talking about the
7 broadest interpretation of the like product -

8 VICE CHAIRMAN PEARSON: Well -

9 MR. CRAVEN: - because those are two distinct
10 differences.

11 VICE CHAIRMAN PEARSON: Subject product is what I
12 am interested in.

13 MR. CRAVEN: That would include the forged valves
14 you sold, then.

15 MR. JIN: Okay. Yeah, it's not only U.S. We also
16 sell them to Mexico.

17 MR. CRAVEN: It also includes the forged valves.

18 MR. JIN: Okay. So, if it's a forged valve, we
19 also sell in whole Asia, Japan, Korea, Taiwan, Thailand.

20 VICE CHAIRMAN PEARSON: Okay. A question then for
21 Mr. Craven. Is the scope broad enough to - the scope that
22 Commerce has prepared is broad enough to include valves
23 other than frontseating service valves?

24 MR. CRAVEN: I think, in fact, it clearly does
25 cover that. One of the distinctions that is on the public

1 record is that Sanhua sells bar stock valve, which is the
2 same valve that Parker sells, and DunAn sells forged, which
3 is a different manufacturing process. And Sanhua also
4 produces, that's why you'll on the Commission data for
5 Sanhua, there are two different sets of data in the
6 confidential reports, because Sanhua produces bar stock
7 valves and they also produce forged service valves. They
8 don't sell forged service valves to the United States market
9 at all. And so, we were not sure how the Commission wanted
10 to treat that data, because it is not a product that they
11 qualify or sell here in the U.S., but it is a product, which
12 if we were to import into the United States, would
13 technically fall under the like product and under the scope
14 of any order.

15 VICE CHAIRMAN PEARSON: Okay, thank you. Mr.
16 Dinan, this morning, I was not aware that there might be any
17 confusion regarding what was in the scope. If for purposes
18 of the post-hearing, you could provide your understanding of
19 what is and is not in the scope, that would be helpful to
20 me.

21 MR. CRAVEN: Excuse me, Vice Chairman Pearson, I
22 don't think there is confusion.

23 VICE CHAIRMAN PEARSON: I'm sorry. Mr. Dinan, is
24 that agreeable?

25 MR. DINAN: Yes, absolutely.

1 VICE CHAIRMAN PEARSON: Thank you.

2 MR. CRAVEN: I don't think there is confusion. I
3 think we agree that they fall within the scope as defined by
4 Commerce and the Commission. We attempted to fight that
5 battle at the preliminary and not attempting to fight that
6 battle here.

7 VICE CHAIRMAN PEARSON: The confusion may not at
8 all be between the parties, but rather only with the Vice
9 Chairman. So, to the extent you can help sort that out for
10 me, that would be great.

11 Mr. Jin, in the confidential record, which I
12 understand you are not able to review, we see evidence that
13 there is a meaningful amount of underselling by the product
14 sold by Sanhua. That product is sold at a lower price than
15 the product produced by the domestic industry. My question,
16 why are the imported products selling so much below the
17 domestic product?

18 MR. JIN: We quote to the customer the price based
19 on our cost.

20 VICE CHAIRMAN PEARSON: Okay. So, it's really
21 your cost, plus enough of a margin, so that you run a
22 profitable business?

23 MR. JIN: Yes.

24 VICE CHAIRMAN PEARSON: Okay. Do you have any
25 idea what factors enable Chinese producers to manufacturer

1 and sell frontseating service valves at costs so much lower
2 than the U.S. producer? And the reason that I ask this is
3 this morning, they told us that they are not able to recoup
4 even their raw material costs and to compete effectively
5 against the imported valves. I think I understood that
6 correctly. So, they see the Chinese product coming in at
7 very low price relative to their manufactured cost.

8 MR. JIN: I don't know what certain price of
9 Parker-Hannifin. But, basically, we quote price based on
10 our costs and our reasonable margin. And our products are
11 produced by an automatic machine, which starts from a very
12 long brass bar and after finishing the process, it will
13 become the valve body. So, that is very efficiency and high
14 quality, quality stable process. The other thing we think
15 we have a low labor cost. And also Sanhua is, I think, the
16 management team is doing a good job and the company can be
17 successful, very successful in 10 years. Of course, 10
18 years ago, we were only like seven million U.S. dollar asset
19 company. Until now, we are like about 100 million asset
20 company. So, I think the measurement is that we are doing a
21 good job.

22 VICE CHAIRMAN PEARSON: Do you know whether China
23 currently provides an export rebate, a rebate of the value-
24 added tax when frontseating service valves are exported?

25 MR. JIN: Excuse me, can you repeat the question?

1 VICE CHAIRMAN PEARSON: I didn't state it very
2 well. Does China provide a rebate of the value-added tax
3 when frontseating service valves are exported?

4 MR. JIN: Yes.

5 VICE CHAIRMAN PEARSON: How much is the rebate?

6 MR. JIN: It's 13 percent.

7 VICE CHAIRMAN PEARSON: Thirteen percent? That's
8 a common rate. So, that sounds to me not unreasonable. If
9 for purposes of the post-hearing, you can clarify that, that
10 would be helpful.

11 MR. CRAVEN: We'll find out.

12 MR. JIN: We will find out. I'm not sure of our
13 current situation, so we will find that out.

14 VICE CHAIRMAN PEARSON: And if that rate has
15 changed over time, to provide that history also would be
16 helpful, okay?

17 MR. JIN: Okay.

18 VICE CHAIRMAN PEARSON: Good. Thank you, very
19 much. Madam Chairman, my light is changing.

20 CHAIRMAN ARANOFF: Commissioner Okun?

21 COMMISSIONER OKUN: Thank you, Madam Chairman, and
22 I join my colleagues in welcoming this panel here today. I
23 appreciate your willingness to appear and take our
24 questions.

25 Let me start by following up on the Chairman's

1 request for additional documentation with respect to the
2 quality allegations you've made. I do think that is
3 important given that that is, as you said, the crux of your
4 causation case here. And just to note, in providing that
5 information, I know you have provided information about
6 Sanhua's - what others have said about your quality, but I
7 think that doesn't enable me to figure out whether I think
8 those purchasers were saying bad things about Parker's
9 quality. So, I think that's the part I'm missing, is if it
10 was a non-priced base reason, I need some additional
11 information that shows us that. Because, I mean, again, in
12 another case under a different record, you might have price
13 differentials that would indicate you had a higher-quality
14 product. And I know you were asked that question and I
15 understood your response on that. So, again, we don't have
16 that on the pricing here and so I do think we do need
17 additional documentation on those particular allegations.

18 And then let me just ask a couple of other
19 questions with regard to pricing. I'm not sure, Mr. Jin, if
20 you followed the questions to Parker this - to the
21 Petitioner this morning about what goes on during the
22 contract negotiation process. One of the things that they
23 talked about is that it wasn't totally clear what everyone's
24 pricing is. And I just wanted to know how much do you know,
25 when you go into a contract, about what the other prices are

1 out there or who your competitors are, you know, a very
2 small market here. I mean, how much do you know about the
3 pricing that's being offered or how much do the OEMs
4 communicate to you?

5 MR. JIN: The OEM never told us the competitor's
6 price.

7 COMMISSIONER OKUN: Okay. So, you were going in
8 and you make an offer.

9 MR. JIN: Based on our cost and the margin.

10 COMMISSIONER OKUN: Okay. And then in your -
11 again, if anything is confidential and you prefer to put it
12 in post-hearing, please do so. But, in terms of the
13 negotiation process, are there other concessions that the
14 OEMs ask for during those processes? In those places where
15 you were successful, tell us what was important in those
16 negotiations, like what were the main driving factors you
17 felt in terms of what you were offering back.

18 MR. JIN: I'm sorry, I don't get your question.

19 COMMISSIONER OKUN: In other words, if you came
20 into the market, you talked about your efforts to come into
21 this market. And as I understand it, many of those
22 contracts were with the Petitioner. So, you were coming in,
23 in essence, to bid on a contract. Tell me what you heard
24 from those OEMs, in terms of what they wanted to see in a
25 contract. What were they focused on in those early

1 discussions?

2 MR. JIN: Let's let our marketing manager, Mr.
3 Guo, to answer this question.

4 COMMISSIONER OKUN: Okay.

5 MR. GUO: I prefer when we negotiate a contract
6 with our OEM customer, what we need to offer is, of course,
7 we ask for the quality warranty, our quality shall be always
8 below a certain ppm number. And in addition, we needed to
9 have delivery, in-time delivery. Some customers even
10 request a just-in-time delivery. We have a random item in
11 the warehouse, we have a consignment warehouse in several
12 customers based on different customer requests. I think
13 that's the basic thing that we need to offer in the
14 contract.

15 COMMISSIONER OKUN: Okay. And then I know in
16 response to the Chairman's questions, she has asked that you
17 specify the percentage of requirements. But, help me
18 understand what your argument is with respect to whether
19 dual sources of supply are important in this market or not,
20 because I was a little confused this morning in listening of
21 whether the OEMs are - whether they are approaching you
22 because they want a second source of supply or whether the
23 contracts you believe are going full sale between - you
24 know, they're either going to put all their sourcing with
25 you or they're not.

1 MR. CRAVEN: I'm sorry, we're still trying to
2 determine exactly the question.

3 COMMISSIONER OKUN: Okay. Because, I thought you
4 had made the argument in your brief, Mr. Craven, so correct
5 me if I'm wrong.

6 MR. CRAVEN: Well, the argument in my brief is not
7 dual source of supply. It's alternative source of supply,
8 which is -

9 COMMISSIONER OKUN: Well, alternate source of
10 supply. I mean, they're only three people -

11 MR. CRAVEN: Well, no, no.

12 COMMISSIONER OKUN: - in here, so I'm trying to
13 figure out. I mean, are they sourcing - is your argument
14 OEMs are splitting up their business, at this point?

15 MR. CRAVEN: No. My argument is that it's an
16 alternate source of supply, as opposed to a dual source. In
17 other words, the customer didn't have a choice before as to
18 who they could buy from. They now have a choice. That
19 means the customer may decide he wants to buy from two
20 sources. He may decide he only wants to buy from one
21 source. He could decide he wants to buy from three sources.
22 But the question is an alternative source, as opposed to no
23 alternative source.

24 COMMISSIONER OKUN: Okay. Then, I did
25 misunderstand your argument, because, to me, that's - well,

1 okay, that is a different argument. Okay. So, it's more
2 that you think since they have - they can buy from a
3 domestic producer or they can buy from an imported product.
4 That shows what in the market?

5 MR. CRAVEN: What is shows is there is now
6 competition in the market and all of the price discussions
7 we've been having are all based on a price, which is
8 reflected in the confidential record, as well, I think.
9 It's reflected on a price that was - I've got to put this in
10 a brief. I really can't say the points in the record that I
11 think support what I believe about the pricing before the
12 entry of competition.

13 COMMISSIONER OKUN: Okay. But in doing that, you
14 know - I mean, you understand from the statutory
15 requirements that the Commission operates under, that you
16 have to put that in the context of answering allegations
17 about underselling and that there is, in fact, a dumping
18 margin. I mean, the Commission has to take - we don't get a
19 say, you know - with apologies to your clients, who come
20 before here, don't want to make any - you know, don't want
21 to say you shouldn't be here, but you have to understand
22 that for us, we have to take the Commerce Department has
23 found margins of dumping and, therefore, you know -

24 MR. CRAVEN: I think all of that -

25 COMMISSIONER OKUN: - we need to look at the

1 other record evidence to figure out if that a fact, the
2 pricing, and what's happening with underselling and looking
3 at the pricing analysis, which we have on the record.

4 MR. CRAVEN: I think - I mean, I fully do
5 understand that. I think the point is, again, it's not -
6 we're suggesting - essentially, we're looking at 19 U.S.C.
7 1677, the part about where you may consider other economic
8 factors. And our position is that while you've got your
9 traditional underselling analysis, you also have to look at
10 it in the unique context, the unique situation of this
11 particular market and determine whether and why that
12 underselling has occurred. Again, this is the example of --
13 potentially the example of the person and the oasis. When
14 there's only one person selling water in the oasis, it may
15 be a \$1,000 a liter and when there are two sellers of water
16 or three sellers of water in the oasis, the price is going
17 to come down. And the first -

18 COMMISSIONER OKUN: Again, let's take it as an
19 economic argument, the prices - it still seems to me we have
20 this issue about there being money left on the table. In
21 other words, it's not - you know, if you have - as you've
22 said, you have more than one, you have different - the OEMs
23 can go to the - they can go to the Chinese producers; they
24 can go to the U.S. producer. I am still trying to figure
25 out why, in that circumstance, you either don't have closer

1 equilibrium or, you know - because you've tried to make this
2 point, or you would see overselling, underselling, I think
3 one of your things, which, again, often the case in cases
4 that we would see before us.

5 MR. CRAVEN: But, it's different, in that when you
6 only have one - when you originally only have one source,
7 it's the guy in the oasis, who has the unlimited supply of
8 water is going to be able to charge whatever he wants. He's
9 the only supplier of water. And if another person comes
10 into the oasis, who has also an unlimited supply of water,
11 at that point, the issue becomes what prices the purchaser
12 then has the power to decide, essentially, what price he's
13 going to get the water from, unless the two suppliers enter
14 into an illegal agreement to fix prices. And we most
15 certainly -- most certainly, that's not what you're
16 suggesting. But, that would be the only way that he would
17 "leave money on the table" in this situation, would be if
18 Sanhua and DunAn and Parker were all to charge an
19 artificially high price and enforce that against the
20 purchasers,

21 COMMISSIONER OKUN: Well, again, I mean, I know
22 that you've responded to some of the questions about whether
23 this is a price taking market or not and who the price
24 leaders are when you only have seven OEMs. So, I may have a
25 chance to return to that, but I see my red light has come

1 on. Thank you.

2 CHAIRMAN ARANOFF: Commissioner Lane?

3 COMMISSIONER LANE: Thank you and welcome back to
4 the Commission, Mr. Craven. This is sort of an easier
5 product to understand than your last product. As I
6 understand what we are looking at here today, Parker had all
7 of the OEMs, except maybe one, as its customers. And now
8 during this period of investigation, it has lost four of
9 those customers. Can you tell me, because I couldn't quite
10 find it in the record, which quarter and which year they
11 lost each of those customers? We can call them Customer A,
12 B, C, and D.

13 MR. CRAVEN: We may not be able to tell you that
14 directly. What we can tell you is which quarter we started
15 selling to that customer. We won't necessarily know what
16 quarter Parker stopped selling to that customer. I don't
17 have that data here, but I will be glad to even associate
18 customer names with it in the post-hearing brief.

19 COMMISSIONER LANE: That would be fine. I think
20 if you identify what quarter of what year you started
21 selling and the quantity and the price, then I will be able
22 to take it from there. Thank you.

23 As I understand it, you are not contesting the
24 domestic like product issue, but you are saying that there's
25 this other product out there called bar stock that we're not

1 talking about today but it is included within the scope.

2 MR. CRAVEN: Actually we are, bar stock is the
3 primary product we're talking about here. The --

4 COMMISSIONER LANE: I'm sorry. Forged service
5 valves.

6 MR. CRAVEN: You've got forged service valves here
7 too. He's forged service valves.

8 There are two different methods of making service
9 valves. Sanhua and Parker use one method here for the
10 United States market. DunAn uses another method for the
11 United States market. And Sanhua uses another method for
12 sales outside the United States market.

13 COMMISSIONER LANE: And that would be the forged
14 service valves.

15 MR. CRAVEN: Yes, Your Honor.

16 COMMISSIONER LANE: Why thank you.

17 (Laughter.)

18 COMMISSIONER LANE: I sort of like the sound of
19 that. That sounds sort of nice. Your Honor. Do you think
20 I can get my staff to start calling me that?

21 MR. CRAVEN: I'm sorry, I thought that was the
22 honorific for the Commission.

23 COMMISSIONER LANE: If we found injury and tariffs
24 were put on this product, would it also include the forged
25 service valves that Sanhua might bring into this country?

1 MR. CRAVEN: It would have to. Otherwise it
2 wouldn't cover this product.

3 COMMISSIONER LANE: Are forged service valves that
4 Sanhua makes interchangeable with what Parker makes?

5 MR. CRAVEN: Mark, do you want to help me?

6 To the extent that they're the same fitting size,
7 locations and the like, sure. Mark can explain I think in
8 more detail, though.

9 MR. JIN: The answer is yes.

10 COMMISSIONER LANE: And right now Sanhua is not
11 in competition with Parker's forged service valves.

12 MR. CRAVEN: Parker doesn't have forged service
13 valves. Parker uses bar stock. We use bar stock.

14 We don't know the Parker production process
15 directly.

16 COMMISSIONER LANE: Okay, I misunderstood. I
17 thought you said that Parker also had forged service valves.

18 MR. CRAVEN: No. DunAn has forged. Sanhua is the
19 only producer that has both bar stock and forged.

20 COMMISSIONER LANE: Thank you.

21 You describe Parker as having, previously having
22 nearly unlimited market power. Is it not more accurate to
23 describe Parker as a price taker subject to the market power
24 of an oligarchy of OEMs?

25 MR. CRAVEN: No, because of the nature of the

1 product. I think that would suggest there is some
2 alternative for the oligarchy of the OEMs and there wasn't.

3 COMMISSIONER LANE: I'm trying to get my hands
4 around one of your arguments.

5 Throughout your brief you argue that the changes
6 in market share between domestic and imported FSCs as well
7 as Chinese underselling are natural, not unique, and neither
8 extraordinary nor unusual given the U.S. market structure.
9 However the statute is concerned with significant volume and
10 price effects.

11 So how should the Commission evaluate the effects
12 of natural or not unusual effects if they are nonetheless
13 significant?

14 MR. CRAVEN: Again, I hate to rely on the small
15 portion of the statute, but I would again suggest that it
16 really comes down to the portion of the statute which says
17 so there are other economic factors which are relevant to
18 determinations regarding whether there is material injury by
19 reason of imports. And that you've got your traditional
20 analysis, you need to conduct your traditional analysis, but
21 your traditional analysis cannot be conducted in a vacuum
22 and you need to look at the situation involving the market,
23 the product itself, and the other factors' language in the
24 statute is what gives you the ability to do it.

25 COMMISSIONER LANE: So your argument is that we

1 can ignore the fact that Commerce has found a dumping margin
2 by classifying that under other parts of, or other
3 conditions of competition.

4 MR. CRAVEN: No, I'm not suggesting that. I'm
5 suggesting, let me read something from the legislative
6 history.

7 The legislative history talks about an industry's
8 health should be determined in the context of the impact
9 that imports are having on that industry. Furthermore, the
10 condition of the industry should be considered in the
11 context of the dynamics of that particular industry sector,
12 not in relationship to other industries or manufacturers as
13 a whole. In other words, this is the dynamic of the
14 industry. There may be some margin calculated at the
15 Commerce Department.

16 the fact is that that doesn't directly relate to
17 why we're seeing the dynamic we're seeing in the market.
18 Again, that would suggest some knowledge, frankly, on the
19 part of Sanhua's to Parker's prices as well.

20 COMMISSIONER LANE: Let's go to consignment
21 inventory. What is the value of offering FSVs to purchasers
22 through consigned inventory versus just in time delivery?

23 MR. GUO: For the consignment of warehouse and
24 just in time inventory, for consignment of the warehouse, we
25 set up our consignments warehouses for the just in time

1 inventory. I'm not sure whether I understand you correctly
2 or not.

3 COMMISSIONER LANE: Thank you.

4 Is consigned inventory always held in the
5 purchaser's warehouse?

6 MR. GUO: It varies. Different customers,
7 different requests. Some customers we have consignment on
8 their site.

9 COMMISSIONER LANE: Thank you.

10 Thank you, Madame Chair. That's all I have.

11 CHAIRMAN ARANOFF: Commissioner Pinkert? No.
12 Commissioner Williamson, sorry.

13 COMMISSIONER WILLIAMSON: Thank you, Madame
14 Chairman. Thank you, witnesses, for your testimony this
15 afternoon.

16 Just to follow up on Commissioner Lane's last
17 question, is there a difference in cost to the manufacturer
18 or the importer of a consigned inventory versus a just in
19 time delivery system?

20 MR. GUO: There may be a total difference, but I
21 cannot tell you exactly. I can put it in the post-hearing
22 brief.

23 COMMISSIONER WILLIAMSON: Yes, because I think it
24 would be relevant who's bearing the, is there a difference
25 in cost and who's bearing that cost would be helpful to

1 understand.

2 MR. GUO: Okay.

3 COMMISSIONER WILLIAMSON: Mr. Craven, you
4 mentioned the guy in the oasis I guess who's selling water.
5 I was just wondering, how long does it take him to adjust
6 prices for different competitors, especially if he has a
7 price --

8 MR. CRAVEN: It depends on how stubborn he is. It
9 depends on the length of the contracts and it depends also
10 on how long he's been holding the water at a high price to
11 the guy in the oasis.

12 I'm disappointed that we don't have any of the
13 purchasers here, but the fact that they buy multiple
14 products in a contract from Sanhua but only single products
15 in the contracts from Parker suggests that the purchasers
16 themselves are looking always for alternatives to Parker,
17 and that Parker perhaps has alienated some of its customers
18 as well and it may take time for them to recover.

19 But the answer is I don't think you can
20 definitively say how long is an appropriate time.

21 COMMISSIONER WILLIAMSON: So you still find your
22 market power? The reason I asked that question is because I
23 had a little trouble understanding your market power theory
24 about the use of market power maybe before 2005 and it's
25 taken them to now and they still haven't adjusted.

1 MR. CRAVEN: The other problem is he doesn't have
2 it any more and the guy who has the power now is the OEMs.
3 So the OEMs are really the ones controlling the pricing in
4 this market now, not Sanhua, not DunAn, not Parker. We
5 would all, I suspect, probably be happier in a world without
6 anti-trust laws if we were producers, but we aren't in that
7 world.

8 COMMISSIONER WILLIAMSON: So you're implying that
9 basically, but you were implying by your market power thesis
10 Parker wasn't really responding to the market.

11 MR. CRAVEN: No, they were not responding to the
12 market because they were the controller. They could decide
13 what they wanted to sell it for and I think if the
14 Commission would like, I either could put the Wall Street
15 Journal article on the record. I would hope you would read
16 it. There are some actual examples in that of where Parker
17 raised prices overnight by 60 percent because they
18 determined that they didn't have a competitor in that
19 product mix. I would suggest that a pricing policy like
20 that's going to make some enemies.

21 COMMISSIONER WILLIAMSON: I guess that still
22 raises the question, you're losing a large amount of market
23 share and I guess there's a profit impact in all that if you
24 continue.

25 MR. CRAVEN: But if there is no alternative, if

1 the customer's choice is to redesign their product mix or
2 pay a lot more for a small part, they're going to pay a lot
3 more for a small part.

4 COMMISSIONER WILLIAMSON: Okay.

5 You had made a statement in explaining this loss
6 of market power theory that a company should be able to
7 retain its customers at fair prices. I was wondering what
8 if someone says the prices are not fair. Can you go back
9 and explain your statement, how it operates there?

10 MR. CRAVEN: If the prices are not fair then the
11 company would be difficult to retain its prices at fair
12 pricing. I think that's one of the difficulties in
13 determining what is fair pricing. I will acknowledge that.
14 But the Commission is very knowledgeable, and I think the
15 Commission can make a fair determination on that.

16 COMMISSIONER WILLIAMSON: Okay. Thank you.

17 On page 13 of your brief you state that Parker is
18 a large and profitable company that produces many products
19 in addition to FSVs.

20 I'm not sure about the point you're making.
21 Should we consider some aspect of Parker's non-FSV
22 operations in making our determination? How should we
23 consider that?

24 MR. CRAVEN: I think the information on page 13
25 was provided specifically in relationship to the

1 unsummarizable confidential information that follows behind
2 pricing the operations at issue here in context. So it's
3 difficult for me to explain that further without reaching
4 dangerously into the BPI area.

5 But I think if you check you'll see there's a
6 discussion of relative expenditures and profits in the
7 service valve sector versus the company's overall numbers.
8 I really would prefer not to say more on that here.

9 COMMISSIONER WILLIAMSON: Okay. Thank you.

10 To follow up on Commissioner Pinkert's question
11 regarding the Commerce Department's finding that margins of
12 13 to 56 percent. And he was asking, the Commerce finding
13 that this would be required to remove the effects of unfair
14 pricing.

15 Would you address the argument made by Dr.
16 Magrath this morning that antidumping duties are not
17 designed to remove competition or market power, but simply
18 to eliminate unfair price advantage?

19 MR. CRAVEN: It's a difficult, I'd like to think
20 about that a little more.

21 They are not specifically designed to restore
22 market power, in fact I would hope they wouldn't be designed
23 to restore market power. But I think, again, the margins
24 aren't the issue here. This isn't a situation necessarily
25 where the margin is the basis for what's going on here. The

1 interrelationship between the underselling and the margins
2 were discussed earlier today, and the discussion was how the
3 underselling, again, I'm really hesitant on the confidential
4 information here at this point. Sorry.

5 COMMISSIONER WILLIAMSON: You did make a point, I
6 guess you're saying that because there are only, now there
7 are three companies in the market, that you didn't expect,
8 you said if there were only two companies you would have
9 some underselling and overselling, but with three the
10 consistent underselling was not unusual. Can you make a
11 statement on --

12 MR. CRAVEN: No, no. What I was saying was that
13 when you add competition into a market and the person with
14 the market power doesn't understand that competition has
15 been added into the market, you might see a consistent
16 pattern of underselling as he continues to try to hold to
17 his prior premiums rather than reacting to the market
18 pricing.

19 COMMISSIONER WILLIAMSON: Three and a half years
20 after --

21 MR. CRAVEN: Absolutely.

22 COMMISSIONER WILLIAMSON: That's what I was trying
23 to figure out.

24 MR. CRAVEN: The other issue you're talking about
25 where the difference between having two market players

1 versus three market players relates to the question about
2 whether quality is going to be determinative only where the
3 price quality issues are related. It's having three market
4 players changes the price/quality dynamic. That was the
5 discussion I'd had earlier about the difference between two
6 and three market players.

7 COMMISSIONER WILLIAMSON: And when you have three
8 quality --

9 MR. CRAVEN: When you have three players, when you
10 have two players, quality becomes the absolute predominant
11 factor because if the quality isn't good enough then you
12 only really have one alternative. If on the other hand you
13 have three market players, then you have two different
14 options to see if they meet your quality standards and
15 pricing. So there is more of a competition for the pricing.
16 In a duopoly you could end up with still having someone with
17 significant market power.

18 COMMISSIONER WILLIAMSON: I think I got your point
19 now.

20 My light's about to change. I'll save this one
21 for later. Thank you.

22 CHAIRMAN ARANOFF: Commissioner Pinkert?

23 COMMISSIONER PINKERT: Thank you, Madame Chairman.

24 I just wanted to get some clarification on a point
25 from your testimony, Mr. Craven. I thought I heard you

1 testify that subject imports and the domestic like product
2 are interchangeable. If that's correct, then I'm wondering
3 how that is consistent with your testimony about quality
4 differences between the Chinese product and the U.S.
5 product?

6 MR. CRAVEN: I probably was not as detailed as I
7 wanted. Assuming for a moment that the quality is the same,
8 the products are the same. They both look the same, they're
9 both made of generally the same material. Quality is not
10 just, of course, appearance. You may have two cranes that
11 look to be the same, and one can lift three tons and one
12 can't. Appearance is not the only judge.

13 But the answer is they're interchangeable to the
14 extent that they are the same generic products. Not
15 necessarily they're the same quality of good.

16 COMMISSIONER PINKERT: You've gotten some
17 questions from Commissioner Williamson and Commissioner Lane
18 about the inventory consignment process, and I'm wondering
19 whether you could respond to the argument that the
20 consignment issue is really a price issue. In other words
21 it all comes out in the price. If the producer of the
22 merchandise can get a good enough price, they can provide
23 the consignment option.

24 Maybe that's more of a question for Mr. Guo and
25 Mr. Jin, but I want to give you the opportunity to respond

1 to it as well.

2 MR. CRAVEN: Ultimately everything could
3 ultimately boil down to a price issue if you take it to the
4 Nth degree. That's why we have courts that award monetary
5 damages. Ultimately everything theoretically can be reduced
6 to a monetary argument.

7 That being said, I think that the consignment
8 issue is in fact one of the key points as to the kind of
9 take it or leave it approach that's advocated by Parker.

10 The consignment issue is something that customers
11 want. I believe that Mark and Tony can confirm that in fact
12 these customers do consignment with other suppliers as well
13 in other products. That's how the customer wants to do
14 business. And if that's how the customer wants to do
15 business, that's how you're supposed to do business. You
16 don't tell the customer no, that's not how you do business
17 because that's not what the customer wants to hear. You
18 treat the customer like they're the king. They may make an
19 irrational demand. My clients make many irrational demands
20 of me and I have to accede to many of those demands. It's
21 how you treat a customer.

22 COMMISSIONER PINKERT: Let me ask Mr. Guo and Mr.
23 Jin then, is that something that, is the consignment option
24 an option that the customer ought to pay for? Is that your
25 understanding of the way that the relationship between the

1 customer and the producer operates?

2 MR. JIN: I think first of all we are supplier, we
3 have the duty to fill up a customer. So I think providing
4 the consignment warehouse to our customer is a kind of
5 service.

6 The second thing is, we do not have a factory in
7 the U.S. so we have to inventory here. Inventory, without
8 the inventory we cannot fill a customer's production line.

9 So consignment warehouse is also good for us. We
10 can use customer's warehouse to inventory our product.

11 COMMISSIONER PINKERT: So I understand, you're
12 saying that it's a service to the customer. I'm wondering
13 then, is that a service that you would expect the customer
14 to pay for?

15 MR. JIN: A customer buys our products. Will pay
16 for us.

17 COMMISSIONER PINKERT: I'm sorry, I didn't
18 understand the answer.

19 MR. JIN: Customer bought our product and we get
20 profit, that is what they pay to us.

21 COMMISSIONER PINKERT: So they don't pay for that
22 service, is that what you're saying?

23 MR. JIN: It already be covered in travel margin.

24 COMMISSIONER PINKERT: So whether the customer
25 gets the consignment option or not, the price would be the

1 same?

2 MR. JIN: Different customers, they have different
3 product requirements, so the costs will be different. So
4 when we consider the price we also consider the consignment,
5 the term of soft delivery into our cost. So based on that
6 total cost, we gave the customer our price. So that unit
7 price customer pays for us already includes our service for
8 the consignment warehouse.

9 COMMISSIONER PINKERT: Perhaps in the post-hearing
10 if Mr. Craven, you can provide any additional information
11 about how that works, I think that would be very helpful.

12 Mr. Guo, did you have anything that you wanted to
13 add?

14 MR. GUO: I'm good, thank you. I have nothing to
15 add.

16 COMMISSIONER PINKERT: Thank you.

17 Can you give us, Mr. Guo and Mr. Jin and Mr.
18 Craven, can you give us any idea of the global market for
19 FSVs and how your company is working to meet the demand in
20 the global market. The broader market, not just the United
21 States.

22 MR. CRAVEN: Let me clarify again, I apologize.

23 You're talking about FSVs including the forged
24 FSVs as opposed to the bar stock FSVs that are the subject,
25 well, they're all subject merchandise, but is the primary

1 product sold in the U.S.

2 COMMISSIONER PINKERT: Correct.

3 MR. JIN: We supply the forged service valve to
4 Asia market. And the major customers in this market is like
5 the Japanese and the Korean customers, also the Chinese
6 customers. Of course the Chinese market is our first market
7 to sell the service valves which goes back to I think ten
8 years ago.

9 Later we expand to the Japan market because at
10 that time we have a joint venture with Japan company. We
11 also have established the Japan sales office to promote the
12 Japan market.

13 After that we also sell to Korea and Thailand.
14 this is major market for Asia and most of them use our
15 forged service valves.

16 In the U.S. we only supply the bar stock service
17 valve.

18 COMMISSIONER PINKERT: Where do you see the global
19 market going over the next year or two? Do you see it
20 contracting because of the worldwide economic crisis? Or do
21 you see it continuing to grow? What's your projection?

22 MR. JIN: Our projection is if the economic crisis
23 not end, our sales cannot be going up.

24 COMMISSIONER PINKERT: Looking globally, how do
25 you compare the U.S. market with the other markets that

1 you're talking about generally? How do you compare it in
2 terms of attractiveness and in terms of price?

3 MR. JIN: The U.S. market is a very important
4 market for us because the U.S. have very high technology
5 products here and it's a leader of the industry. So we can
6 find more new products here, not only the forged service
7 valves. And also the U.S. market is a big market for us.

8 COMMISSIONER PINKERT: Thank you.

9 Thank you, Madame Chairman.

10 CHAIRMAN ARANOFF: I just want to follow up on a
11 few of the questions that Commissioner Pinkert was asking
12 about consignment services, consigned inventory.

13 He asked you to describe how consignment services
14 are handled in your contract. So I guess I would ask that
15 as you're providing the summary of contract terms that I had
16 asked you to provide, if you could include any agreement
17 with respect to consignment services that would be provided
18 and if there's a separate price term for that, that would be
19 really useful in helping us to address that issue.

20 The Petitioner argues that because the provision
21 of consignment services is costly, that we should consider
22 the provision of such services to be an additional discount
23 from price on top of any observed underselling.

24 Can you provide us with the rationale for why we
25 should not consider the provision of consignment services to

1 be an additional price discount on top of the observed
2 underselling that we have in the record?

3 MR. CRAVEN: Well again, it comes down to the
4 question of everything can ultimately be reduced to money.
5 At what point are you going to say well we've got packaging
6 or we have a different carrying term, or we have a different
7 method of sourcing our raw material. At what point do you
8 separate this?

9 The answer is this is a separate service and
10 there's no real rationale for treating it as a different
11 than any other service that's provided as part of the normal
12 selling of goods. When you start splitting these off you
13 then start engaging in microanalysis of well, is this
14 service provided? This company insists on having us check
15 their web site for orders. At what point do you then decide
16 where to split that?

17 I think the other thing is to take into account
18 inventory carrying. Is there, as Mark and Tony indicated,
19 because Sanhua already has to stock inventories in the
20 United States, is there a significant difference between
21 stocking it at their warehouse or stocking it at a
22 consignment warehouse? I think it's in some ways Parker
23 would like the entire world of FSVs to fit into their
24 procrustean bed.

25 CHAIRMAN ARANOFF: The last thing I wanted to

1 understand is, to make sure that I understand it properly,
2 all of the costs that would be associated with offering a
3 service like consignment are costs that are incurred in the
4 United States. So warehousing, loading and unloading of
5 trucks, all that sort of thing. So if we're looking at how
6 much it might cost one of the Chinese producers to provide
7 that service versus what it might cost the Petitioner to
8 provide that service we shouldn't be seeing any fundamental
9 differences based on currency or anything else. It should
10 all be based on U.S. costs, is that correct?

11 MR. CRAVEN: That's my understanding, but I think
12 Mark and Tony can confirm that.

13 Let me clarify the question please. Commissioner
14 Aranoff wishes to know whether all of the services relating
15 to the consignment warehouse are provided here in the United
16 States or if there are any differences in how it's done from
17 China.

18 Does China do anything to help with consignment
19 warehousing? Or is it all done here in the United States?
20 All the costs.

21 MR. JIN: For China customers?

22 MR. CRAVEN: No, for the U.S. customers.

23 MR. JIN: China consignment warehouse?

24 MR. CRAVEN: Just a second, I'm sorry.

25 (Pause.)

1 MR. JIN: Excuse me. I'm sorry, I didn't get your
2 question very clear.

3 Sanhua International handling order consignment
4 warehouse in USA.

5 CHAIRMAN ARANOFF: Thank you for that answer. And
6 not to worry, your English is still far better than my
7 Mandarin.

8 I think that's all the questions I have. I guess
9 I'll just reiterate that since I've asked the Respondents to
10 provide details on consignment in connection with their
11 contract terms, if I could ask Petitioner to do the same to
12 the extent that there's anything relevant to say on that,
13 that would be helpful.

14 With that, I don't think I have any more
15 questions. I'll turn to Vice Chairman Pearson.

16 VICE CHAIRMAN PEARSON: Thank you, Madame
17 Chairman.

18 Mr. Marshak, it's not my intention to ignore you.

19 MR. MARSHAK: I like being ignored.

20 VICE CHAIRMAN PEARSON: I sometimes feel the same.
21 But I do have a specific question relating to DunAn. It has
22 to do with Commerce's margin and just trying to understand
23 what's going on there.

24 The preliminary margin for DunAn was 26.72
25 percent, and apparently you did a really good job of helping

1 Commerce to understand the specific circumstances that apply
2 to DunAn's production costs and pricing because the final
3 margin comes out at 12.95 percent which is a significant
4 reduction.

5 MR. MARSHAK: Yes, we did.

6 VICE CHAIRMAN PEARSON: My question to you is
7 similar to what I asked this morning of Petitioners. Are
8 these final margins correct, or did they accidentally switch
9 the two --

10 MR. MARSHAK: I believe the preliminary margin was
11 higher than it should have been because the Department of
12 Commerce did not make an adjustment it should have made. Is
13 the final margin correct? We think it should be lower,
14 Petitioners may think it should be higher. We'll see if
15 anybody challenges it, we'll see if there are any errors.
16 But we believe it's basically correct based on the
17 department's methodology in the final.

18 VICE CHAIRMAN PEARSON: Mr. Craven?

19 MR. CRAVEN: We believe, we don't know where it is
20 yet, but we are absolutely convinced there is a significant
21 clerical error of somewhere between 15 to 20 points in our
22 margin. Our margin, based on all the arguments at Commerce
23 and the issues in decisions memoranda, our margin should
24 have gone down, not doubled. So we will be hopefully
25 having, Commerce will hopefully correct it before your vote.

1 VICE CHAIRMAN PEARSON: As you know, the statute
2 does require us to consider the margins, so for purposes of
3 post-hearing tell us what you learn from Commerce and make
4 sure that we have the correct understanding of the final
5 margin.

6 MR. CRAVEN: We just hope that they will be able
7 to issue a clerical error correction before your final.

8 VICE CHAIRMAN PEARSON: And of course we just hope
9 it's not at the expense of Mr. Marshak's client.

10 MR. CRAVEN: No, no, no. We believe Mr. Marshak's
11 margin is probably correct as well. We just believe ours
12 is, there's an error.

13 VICE CHAIRMAN PEARSON: Thank you.

14 Mr. Jin, the staff report indicates that there's a
15 significant home market for frontseating service valves in
16 China. In other words a significant portion of the
17 production of Sanhua is sold in China.

18 The Petitioners have the view that there were no
19 sales of frontseating service valves outside of North
20 America. I want to clarify that. Can you give your
21 perspective on the question of whether frontseating service
22 valves are sold in China?

23 MR. JIN: I think there must be some definition
24 difference. The Petitioner mentioned the frontseating
25 service valve is a bar stock service valve with machining

1 the body, it's not a forging one.

2 But in China we only supply to our customer there
3 a forged service valve.

4 VICE CHAIRMAN PEARSON: Commerce is scoping so
5 it's both, if I'm not mistaken. And you sell some forged
6 service valves in the United States, correct?

7 MR. JIN: No.

8 VICE CHAIRMAN PEARSON: Does DunAn sell some
9 forged service valves in the United States?

10 MR. MARSHAK: Yes. DunAn sells forged service
11 valves.

12 VICE CHAIRMAN PEARSON: Okay.

13 MR. CRAVEN: The distinction is, Parker only sells
14 bar stock service valves. DunAn only sells forged service
15 valves. Sanhua sells both forged service valves and bar
16 stock service valves. Sanhua sells bar stock service valves
17 to the United States, Canada and Mexico; they sell forged
18 service valves to everywhere else in the world. The scope
19 covers both bar stock and forged.

20 VICE CHAIRMAN PEARSON: Mr. Jin, is there any
21 functional difference for the original equipment
22 manufacturers between using a forged valve and a bar stock
23 valve? I understand there's a difference in the production
24 process, perhaps a difference in the cost to manufacture.
25 But for the user is there a difference?

1 MR. JIN: The major difference is in the
2 installation. The installation is different. Mounting is
3 different. It's a function thing.

4 VICE CHAIRMAN PEARSON: Thank you.

5 Is most of the demand in China for frontseating
6 service valves for new construction or is there also a
7 replacement market like we have in the United States? Here
8 the testimony is that about 70 percent of the consumption
9 goes to replacement air conditioning units.

10 MR. JIN: I do not have exactly data but I can
11 give you a general idea.

12 In China when you move into a new house the owner
13 of the house will buy the air conditioner from the
14 department or supermarket. Is not contracted, the air
15 conditioner.

16 So I think the majority of the market will be the
17 house owner, they purchase the air conditioner.

18 And also the air conditioner is running down so
19 they will buy themselves a new one to replace the old one.

20 VICE CHAIRMAN PEARSON: I know that many
21 homeowners in China have the window units that would not
22 have a frontseating service valve, but in some of the new
23 construction the houses may be built with the split systems
24 that we've been discussing here, or is that not the case in
25 China?

1 MR. JIN: The owner of the house also buys the
2 split unit by themselves.

3 VICE CHAIRMAN PEARSON: Okay.

4 My last question, Mr. Jin. The staff report
5 identified two possible additional producers in China of
6 frontseating service valves. A firm called Guandung and
7 another one Rihue. I may not pronounce it correctly, but
8 perhaps you know these firms.

9 Do you have any information about these companies?
10 And in particular whether they might export to the United
11 States or have plans to export to the United States?

12 MR. JIN: Sorry, I don't know.

13 VICE CHAIRMAN PEARSON: Do you know of the two
14 firms?

15 MR. JIN: I may heard of one of them.

16 VICE CHAIRMAN PEARSON: But they are not a
17 significant factor in the competitive marketplace that you
18 have had to deal with.

19 MR. JIN: No.

20 VICE CHAIRMAN PEARSON: You tend to learn about
21 your competitors.

22 MR. JIN: Yeah.

23 VICE CHAIRMAN PEARSON: If you stumble across any
24 information for purposes of post-hearing, we'd be glad to
25 have it so that we have a more comprehensive understanding

1 of the producer base in China.

2 MR. JIN: Okay.

3 VICE CHAIRMAN PEARSON: Madame Chairman, I think
4 that exhausts my questions. I would like to thank this
5 panel very much for being here today.

6 CHAIRMAN ARANOFF: Commissioner Okun?

7 COMMISSIONER OKUN: Thank you, Madame Chairman.

8 I just have one question left for the panel, and
9 I'll address it to you, Mr. Craven.

10 As you know, under the statute the Commission can
11 give reduced weight to data after the petition is filed.
12 Under the circumstances of this case, how do you think we
13 should evaluate that information?

14 MR. CRAVEN: Boy, I don't know how you evaluate
15 any information, frankly, that's occurred in the last six to
16 nine months with what the economy's been doing. There have
17 been so many adjustments in the bank and the credit markets
18 that it's difficult to suggest how you would evaluate. I
19 can't tell you how to do it. I'm going to have to just rely
20 on your discretion to decide how you want to factor in and
21 out the numerous masking phenomena from the economy.

22 COMMISSIONER OKUN: Okay. If there's anything
23 specific that you think of post-petition, I'd appreciate
24 that as well as we sort through the record.

25 With that, I don't have any further questions, but

1 I thank you for all those responses.

2 CHAIRMAN ARANOFF: Commissioner Lane?

3 COMMISSIONER LANE: Thank you.

4 Before I forget, I'd like the Petitioners to also
5 provide for me which quarters of what year they lost sales,
6 or not lost sales, lost the customers to the Chinese
7 producers. I understand that there were four customers, so
8 we can call them A, B, C, and D so that we have that on the
9 record. It's the same question I asked the Respondents.

10 Mr. Craven --

11 MR. DINAN: We'll definitely provide that
12 information.

13 COMMISSIONER LANE: Thank you.

14 Mr. Craven, could Sanhua and DunAn raise their FSV
15 prices without losing OEM customers to Parker?

16 MR. CRAVEN: Mark, Tony?

17 MR. GUO: I don't know. If I know it, I will
18 raise it.

19 (Laughter.)

20 MR. CRAVEN: I think the question was actually
21 asked of Goodman in the conference, since Goodman was
22 explaining how wonderful the two Chinese producers were
23 about whether they'd pay more, and I believe Goodman said at
24 the conference if they asked for more maybe we'd pay more.

25 So hopefully Goodman will remember this and share

1 it with the other OEMs if we come for a higher price.

2 COMMISSIONER LANE: I asked this question of the
3 Petitioners, and I'm not sure if you can answer it, but
4 maybe you can. We heard about quality and that the
5 customers thought that the Chinese producers provided a
6 better quality product and that the U.S. producers ignored
7 any complaints. And the Petitioners said that nobody
8 complained to them about the quality.

9 What is your take on that argument? Did the OEMs
10 complain to Parker and did Parker, how did Parker respond?

11 MR. CRAVEN: I would need to respond to that for
12 various reasons I can't go into here in the post-hearing
13 brief.

14 COMMISSIONER LANE: Okay, thank you.

15 Madame Chair, with that I have no other questions
16 and I want to thank this panel for being here and for their
17 answers to our questions. Thank you.

18 CHAIRMAN ARANOFF: Commissioner Williamson?

19 COMMISSIONER WILLIAMSON: Thank you, Madame
20 Chairman. Just a few additional questions.

21 One of my colleagues asked earlier about the
22 export tax rebate. I was wondering, is the VAT tax also
23 rebated on exports of FSVs and has there been a change in
24 the tax?

25 MR. JIN: We will address this after post-hearing.

1 COMMISSIONER WILLIAMSON: Thank you.

2 Have any of the U.S. OEM manufacturers, I assume
3 at least one did, change from bar stock service valves to
4 forged service valves? And I was wondering, is that a big
5 decision for a company to make?

6 MR. CRAVEN: I would suggest you ask Mr. Marshak
7 because all of our sales are bar stock.

8 COMMISSIONER WILLIAMSON: Sure.

9 MR. MARSHAK: I think a lot of that information is
10 on the record based on submissions that Goodman made to the
11 Commission.

12 COMMISSIONER WILLIAMSON: I guess the question is,
13 is this a big, this factor of changing from one form of
14 production to another as long as the specifications are the
15 same --

16 MR. MARSHAK: We'll check and put it in our post-
17 hearing brief, but I think Goodman has said a lot about that
18 already in the preliminary.

19 COMMISSIONER WILLIAMSON: Thank you.

20 Another quick question. Since these are
21 oftentimes actually just two or three years, when contracts
22 are negotiated, how long usually before they go into effect?

23 MR. JIN: You mean the contract, after the
24 negotiation of contract?

25 COMMISSIONER WILLIAMSON: Yes. Is it usually

1 something that you negotiate in October and they go into
2 effect in January?

3 MR. JIN: Physically we will negotiate the
4 contract like, if we don't like 2009, our contracts
5 terminated, and we are started to negotiate a contract like
6 July or August in 2008, and our target is before the
7 termination we can have a clear view whether renew the
8 contract or not, so the worst thing is we will get a
9 contract like early of 2009.

10 COMMISSIONER WILLIAMSON: So if you negotiate in
11 July you might, the contract might take effect with
12 shipments beginning in January?

13 MR. JIN: January, yes.

14 COMMISSIONER WILLIAMSON: Okay, thank you.

15 This takes care of all my questions. I want to
16 thank the panel for their responses.

17 CHAIRMAN ARANOFF: Commissioner Pinkert?

18 COMMISSIONER PINKERT: I have nothing further for
19 the panel. I appreciate your testimony and look forward to
20 reviewing the additional information that you'll supply
21 after the hearing.

22 CHAIRMAN ARANOFF: Do any Commissioners have
23 additional questions for the panel?

24 (No response.)

25 CHAIRMAN ARANOFF: Do the staff have any questions

1 for this panel?

2 MR. DEYMAN: Yes, I have one question. George
3 Deyman, Office of Investigations.

4 As you know, the staff's role in these cases is
5 to, among other things, to make sure that the data are
6 complete and correct. And we heard something earlier today
7 that led us to question whether the data reported by DunAn
8 and Sanhua for their Chinese operations accurately reflect
9 the subject product, so here's my question.

10 For Sanhua, you produce both the bar stock valves
11 and the forged valves. You sell the bar stock valves to the
12 United States, Canada and Mexico is what you said. The
13 forged valves are sold within China and are exported to some
14 other countries.

15 The forged valves that are sold to other
16 countries, are they used in residential split air
17 conditioning units?

18 MR. JIN: Yes.

19 MR. DEYMAN: They are. So there are some other
20 countries that use the same sort of split air conditioning
21 units that are used in the United States, is that right?

22 MR. JIN: The design is different with U.S. The
23 issue of split air conditioner is different design with
24 American split air conditioner.

25 MR. DEYMAN: The design is different, but the

1 forged valves that you produce and sell in China and export,
2 if you wanted to, could you sell those forged valves to the
3 United States for use in air conditioners here?

4 MR. JIN: We have to got customer approve before
5 we can sell to here.

6 MR. DEYMAN: But theoretically they are
7 interchangeable? You said perhaps there may be an
8 installation problem or something, but they are valves that
9 could be used in the United States, is that right?

10 MR. JIN: From a suppliers point of view we can
11 not decide if can use in customer system or not. It will be
12 our customers decision if they willing to take the cost to
13 change the design to use our valves.

14 MR. DEYMAN: My question is, data wise we need to
15 know whether to include in your capacity and production and
16 so forth, data, the forged valves or whether we shouldn't
17 include them.

18 MR. CRAVEN: That's why in fact I think you'll
19 check, we gave you two questionnaire responses because we
20 gave you a forged and a bar stock. We separated those out
21 because we honestly don't know which way you want to go. We
22 consider, Sanhua considers them in their two separate
23 sections of the company. One produces bar stock, one
24 produces forged. But we gave you all the data so you would
25 have the decision as to how you wanted to handle it since it

1 is technically in the same product.

2 MR. DEYMAN: Are your forged valves the same as
3 DunAn's forged valves that are sold here?

4 MR. JIN: No, it's different.

5 MR. DEYMAN: Bear with me, how different? I what
6 way are they different?

7 MR. CRAVEN: Just a second, please.

8 (Pause.)

9 MR. JIN: This is our minispirit service valve
10 sold in Asia. You can see this tube in here and is going
11 like watko. But the American design is like different.

12 MR. DEYMAN: Do you have a flare valve included in
13 your report here?

14 MR. JIN: I'm sorry, I don't understand the flare
15 valve.

16 MR. DEYMAN: I guess I wanted to find out, do you
17 produce flare valves for markets outside of North America?

18 MR. JIN: Flare valve.

19 MR. DEYMAN: Yes.

20 MR. JIN: We produce this kind of service valve
21 for Asian market. And this kind of service valve only for
22 U.S. market.

23 MR. DEYMAN: Thank you.

24 We on the staff are not experts in these valves,
25 but looking at the photographs that you showed, it looks

1 like the forged valve that you sell in countries other than
2 North America are different in appearance, at least. But
3 what about in use? Can they be used tomorrow, could you
4 sell those forged valves for use to a company like say
5 Goodman in the United States do you think?

6 MR. JIN: No, it's impossible. They cannot mount
7 with their unit because the whole pipe design is different.
8 They change all the dye, toolings, piping design, and to use
9 our valve.

10 MR. CRAVEN: I assume that a valve designed for
11 Goodman couldn't be used for say York, either. Is that --

12 MR. DEYMAN: I understand. The staff will be in
13 touch with you for maybe a little bit more clarification on
14 the numbers.

15 One quick question for DunAn. DunAn only produces
16 the bar stock. You export some to -- I mean the forged.
17 You export to North America and also you export elsewhere.

18 When you export to other countries, other parts of
19 the world, are those valves used, forged valves used in
20 split residential air conditioning systems?

21 MR. MARSHAK: We'll check and put that in our
22 post-hearing submission.

23 MR. DEYMAN: In other words, the things that you
24 export to the rest of the world, are they the same types of
25 valves that you export to the United States, is our

1 question. Then we'll work with you to get the numbers down
2 right.

3 Thank you, Commissioners, for bearing with us on
4 that.

5 MR. DINAN: Madame Chairman, if we could request
6 that the pages that were referred to in that catalog be put
7 on the record.

8 MR. DEYMAN: One other thing. The booklet that
9 you just showed us, could you put that on the record in your
10 post-hearing brief?

11 MR. CRAVEN: Would you like it on before the post-
12 hearing brief so Petitioner may comment on it?

13 MR. DEYMAN: Absolutely.

14 MR. CRAVEN: Okay. We'll try to get a copy off
15 tomorrow to the Commission and to Mr. Dinan.

16 MR. DINAN: Thank you.

17 MR. CRAVEN: I'm sorry, did you want the entire
18 booklet or just those pages?

19 MR. DEYMAN: I think the entire booklet would be
20 good. And I have one other quick observation.

21 I'd like the other parties to comment on this
22 issue, too, and staff has no further questions.

23 CHAIRMAN ARANOFF: Okay.

24 Mr. Dinan, do you have any questions for this
25 panel?

1 MR. DINAN: No, no questions. But we would have
2 one request, and that is that the pages that were referred
3 to be identified in the booklet. If he's going to produce
4 the whole booklet in the production he should say which
5 pages the witness was pointing to.

6 CHAIRMAN ARANOFF: Mr. Deyman, is that part of
7 your request? That as they provide the whole booklet they
8 specify which were the pages they were discussing with you
9 at the hearing? Would that be helpful?

10 MR. DEYMAN: It would be very helpful, yes.

11 CHAIRMAN ARANOFF: Okay.

12 COMMISSIONER LANE: Madame Chairman?

13 Mr. Deyman was asking Parker to comment on the
14 difference between the forged and the bar code, and I'd sort
15 of like to hear what Parker has to say on that subject.

16 CHAIRMAN ARANOFF: Well, they have a lot of time
17 left for rebuttal, so if they want to comment today they're
18 welcome to do it in their rebuttal time, and if not, post-
19 hearing.

20 If I could just go over the time remaining.
21 Petitioner has 23 minutes left from direct testimony as well
22 as 5 minutes for closing for a total of 28 minutes.
23 Respondents have 41 minutes left from direct testimony, less
24 one minute used for questions, so that's 40 minutes plus 5
25 for closing for a total of 45 minutes.

1 Absent any objection from either side, we usually
2 ask people to lump those two times together and we just hear
3 from each side once in turn, if that's acceptable.

4 Before we turn to rebuttal and closing I just want
5 to go back to the unfinished business this morning which was
6 the question of the Hart Scott Rodino documents. My
7 understanding after consulting is that the Commission hadn't
8 used its enforcement power to enforce a request for
9 documentation by counsel for the other side. You're free to
10 put on any documentation that you want to put on, that you
11 think would be helpful to your case, but unless a request
12 comes directly from the Commission there isn't any
13 obligation, and as of this point I don't think any of us
14 have made that request, although if any of my colleagues or
15 the staff decide they want to, we'll let you know. So I
16 think we'll leave that there.

17 I'll thank this afternoon's panel and ask you if
18 you would please relocate to your other location and then
19 when Petitioners are ready you can come forward to start
20 rebuttal and closing.

21 (Pause.)

22 MR. DINAN: Good afternoon, Madame Chairman,
23 Commissioners, again. Donald Dinan for the Petitioner
24 Parker.

25 In our rebuttal, and I will combine the rebuttal

1 and a closing into sort of one generic statement as I go
2 over the various issues that have come up with the
3 Respondents' presentation.

4 First I would like to turn to the issue of market
5 power. Again, we would emphasize that there is no legal,
6 factual analysis either presented today or in Sanhua's brief
7 that sets forth a market power argument. All there is is
8 just in fact argument.

9 Key items are ignored. First, at all times both
10 in the period of investigation and even the time before,
11 there were other competitors in the market for frontseating
12 valves.

13 Second, all of the purchasers, the seven OEMs, are
14 major corporations. A couple of them are household names,
15 huge corporations, that buy myriad products not only from
16 Parker but from other basic component manufacturing sources.

17 The concept that somehow or another one is using
18 market pricing power over a carrier or a train strains
19 credulity and the facts show this. That if Parker had
20 market power they could have raised the prices significantly
21 throughout the years. Not only the POI, the time before.
22 In fact, due to market pressures, Parker has continually, as
23 everyone else, Parker has continually lowered its prices on
24 FSVs in the last ten years. This is even as the cost of the
25 raw materials, the copper and the brass which is a huge

1 single component of the cost of production, skyrocketed over
2 recent years.

3 Second, if there's market power Parker, and no one
4 else, would have indexed the price to the raw material. In
5 other words, one hundred percent of the fluctuation in the
6 raw material, the customer would get the benefit of. These
7 are not acts of market power.

8 Finally, the whole argument on market power
9 completely ignores the fact that the Chinese importers have
10 been shown by the Department of Commerce to be selling well
11 below their cost of production and indeed below the cost of
12 the raw materials themselves.

13 Quality. The evidence of the testimony is clear
14 that one has to qualify with the OEMs in order to provide
15 FSVs. The qualification process is a long process. It's on
16 the record. During the preliminary the matter was gone into
17 detail. The carrier has a qualifying process of up to 18
18 months. The other companies fluctuate in time, but no one
19 is really below three to six months.

20 Once you qualify, and again as the testimony of
21 Mr. Miller showed today, there is no other quality checks,
22 it's the experience rate in the field. And you have to
23 remember, the nature of this product, they're all
24 essentially identical both in the way they're made, the way
25 they look, the way they work and the components that are

1 inside. It either works or it doesn't work. It either
2 leaks or it doesn't leak.

3 Well how do you know what the quality issue is?
4 It's a means of performance over time. In other words,
5 you'd have to see how many actually failed in the field.

6 Yet the Chinese captured the OEM business before
7 that quantifiable fact was known, could be known, could ever
8 be known. They captured it on price. The OEMs had no
9 experience, once they had qualified and showed that their
10 product met the qualifications, they had no experience and
11 would not have until a period of time as to what the failure
12 rate would be, yet they bought and they bought on price.
13 Quality had nothing to do with it.

14 Also the evidence shows there is no quality
15 difference. This type of product is what they call the
16 DPPM, Defective Parts Per Million. It's on the record.
17 More will be in our post-hearing brief as to why there is
18 not a significant difference in these numbers between any of
19 the producers.

20 Finally and most tellingly, lost sales. The OEMs
21 have stated specifically that Parker lost its sales due to
22 price. Not one said they left because of quality.

23 In analyzing these quality statistics I just
24 referred to, one has to be careful because mistakes have
25 been made in the past in presentations in this case, to not

1 mix the FSVs with other products, other companies make and
2 provide a series of other products, to make sure that the
3 apples and apples are being compared and we will make this
4 clear in our post-hearing submission.

5 Price. We've heard a lot about price versus
6 quality. When one looks at Table 2-5 at page 2-19 of the
7 preliminary staff report, and actually looks at the 20
8 factors, one sees that 11 of those factors are related to
9 price. Then when you go through the superior, the same, the
10 chart, you see on the price factors is where the Chinese
11 score high. Price, not quality.

12 I also submit that the test that was put forth by
13 the Respondents on quality is not accurate with what the law
14 is. Petitioner does not have to have superior quality in
15 order to withstand the quality charge. In this case the
16 qualities are substantially identical.

17 Also talking about price, with respect, counsel
18 for Respondents misstated the pricing standard. Price
19 doesn't have to be the most important factor. Staff is
20 clear, it has to be and is an important factor and indeed it
21 is. In fact in this case it was the only factor because
22 that was the pricing criteria that the OEMs made their
23 decision. They had no idea what the quality rate was going
24 to be in the field when they bought. They bought price and
25 the evidence will show that.

1 On conditions of competition there were questions
2 concerning whether the Chinese manufacturers produced other
3 products, whether they could combine these with the sales,
4 et cetera. There are a couple of items to keep in mind in
5 this regard.

6 First, Parker's product line is vastly greater
7 than Sanhua. Obviously companies try to sell as many
8 products as they can to people, but it's all kind of
9 immaterial because for the OEMs in the air conditioning
10 market, they segregate, because of their buying power, they
11 segregate the products to gain leverage in the pricing of
12 each product. It would be counterproductive for them to try
13 to put in a basket, and they don't. And when you see the
14 contracts from both the Petitioners and the Respondents in
15 the post-hearing submissions, you will see this. You won't
16 see a contract that's got more than the FSVs.

17 I'd now like to move to what I'm going to call the
18 duopoly theory. The pricing analysis set forth by Sanhua.

19 The two purchasers theory quite frankly violates
20 normal pricing theory. It's not how people price. People
21 would do a price, you would figure out what your cost of
22 production is, you'd figure out how much profit you wanted
23 to make, and you'd say are the conditions of the
24 marketplace, a way to differentiate your product, and what
25 the other price concessions were.

1 You would not be in a position to artificially set
2 a price either high or low, unless of course that price were
3 being subsidized. Because if you were pricing fairly the
4 price would seek its own level. The market would clear and
5 the prices would come into conformity. It's not what you
6 have here. You have people who are selling below what you
7 can make the product for.

8 Further, there is no evidence that DunAn and
9 Sanhua are competing with each other, either on price or in
10 any other criteria. Again, showing a flaw in this duopoly
11 theory that is put forward.

12 It also completely ignores the fact that the China
13 price continued to drop as the commodity prices skyrocketed
14 over the period of investigation.

15 Finally, if the quality were different, if the
16 quality were superior as the Commission asked, why would one
17 charge a lower price if they were in a fair pricing or fair
18 competition, pricing wise? They wouldn't. They would try
19 to take that differentiation and seek the higher price.

20 I believe that Commissioner Williamson's analogy
21 at the water hole, how long would you continue to sell water
22 at a very high price when the guy next to you is selling it
23 at a lower price? Again, the pricing would level the
24 market, it's clear. That's not what happened here. The
25 analysis is faulty in its methodology.

1 The years of sloth. We've heard about them. What
2 we haven't heard about and what's on the record and will be
3 supplemented is the innovation that Parker continually made,
4 the investments that it made, before the Chinese showed upon
5 the scene. These included the computer automated lines in
6 the machining printers where you can actually punch into the
7 computer and it makes a different structure. You can run
8 one company at one model, one another model, and you don't
9 have to change the lines. Tremendous efficiencies. And it
10 includes the automated assembly line where once the body of
11 the valve is made then the various phrasing functions
12 putting in the stem valve, the core valve in the cap take
13 place.

14 These are not the years of sloth, these are major
15 innovations and these were machines that Parker designed,
16 engineered, and yes indeed, invented on its own.
17 Innovation. But you can't sell below the cost of
18 production.

19 As to some of the testimony on the cost of
20 production, with respect, Mr. Jin testified there's a
21 carrying price he bases on his cost and then puts in a
22 margin. On questioning he said yes, the process. But
23 Sanhua has been found by the Department of Commerce to be
24 selling below cost, 28 percent. They've been found not to
25 be doing that.

1 Mr. Guo testified that if he could raise prices he
2 would, yet the record shows a massive underselling as to any
3 other competitor in the market. What's preventing the raise
4 in the prices?

5 Now I'd like to turn to this issue which I think
6 has become a little bit of a contretemps, maybe through,
7 again with respect to my brethren using imprecise
8 terminology, and that's this issue that came up with the
9 forged valves.

10 We have to be clear on the terminology here.
11 We'll make this very clear in our post-hearing brief.

12 But service valves is the name of a valve, a
13 generic type of valve. Which simply refers to the type of
14 valve that you're servicing the air conditioning system.
15 The type of service valve that is present in this case and
16 is found to have been present in this case are frontseating
17 valves, FSVs, which is a specific type of service valve.

18 FSVs are the only valves provided in North
19 America, and North America is the only market that they're
20 provided in, and the reason is for purposes of the OEMs
21 having to meet the environmental regulations.

22 You cannot sell what's known as flare valves in
23 the United States. And frontseating valves are sold in no
24 other country other than the United States. When I say the
25 United States, the United States, Canada and Mexico.

1 The forged valves that Sanhua makes in China are
2 flare valves. They cannot be sold in the United States.
3 They are made for the Chinese, the Asian, markets. They are
4 not interchangeable. Indeed every OEM has stated that there
5 is no interchangeability for the FSVs.

6 To recap and to be clear, in North America Sanhua
7 and Parker use machine bar cast frontseating valves. The
8 type of valves that Sanhua casts is a completely separate
9 valve, a flare valve, which is not and cannot be sold in
10 this country, and the converse is also true. FSVs are not
11 sold outside of this country. Again, it's a function of the
12 environmental regulations that the OEMs have to meet.

13 Finally, the Wall Street Journal, which I'm going
14 to call, not the Wall Street Journal, the references to the
15 article is maybe the ultimate red herring.

16 What Parker's chairman may or may not have said in
17 the newspaper in the general circulation is of really no
18 moment and no relevance to this case. First, he was not
19 talking about front seating valves. He wasn't even talking
20 about the climate systems division. And he definitely
21 wasn't talking about the period of investigation. Indeed,
22 when we look at the article it was more talking generic
23 theories of pricing that reduced probably in today's economy
24 more to a wish list than a reality. But certainly nothing
25 that has anything to do with this case.

1 By bringing it up, it shows the tactic of the
2 Respondents has largely been to try to confuse the issue and
3 discuss everything but the real issues, the price, the
4 underselling, the lost market share, the lost customers, the
5 decline in employment, and the like. Why? Because they
6 know where that evidence takes them, material injury.

7 Therefore, in conclusion, we believe that we have
8 shown that the unfairly priced FSVs imported from China have
9 caused material injury to the United States industry which
10 in this case is Parker's CLS, and that the indices of injury
11 have been met in a clear and massive case of a predation on
12 the U.S. market through unfair pricing practices to the
13 level where they're selling the valves for less than you can
14 buy the raw copper. Thank you very much.

15 CHAIRMAN ARANOFF: Thank you.

16 With the parties' indulgence the Chairman needs to
17 call a two minute break before we hear from the Respondents.
18 I will return momentarily and then we'll be ready to
19 proceed.

20 (Whereupon, a short recess was taken).

21 CHAIRMAN ARANOFF: Thank you for your indulgence.

22 Mr. Craven, whenever you're ready.

23 MR. CRAVEN: Thank you.

24 I believe I have 48 minutes?

25 CHAIRMAN ARANOFF: Forty-five actually.

1 MR. CRAVEN: Only 45. Well --

2 CHAIRMAN ARANOFF: If you exceed 45, I will bring
3 out the gavel.

4 MR. CRAVEN: That gives me incentive.

5 I'd like to thank the commission for their very
6 hard, and staff, for their very hard work on this matter and
7 the Commission for their very thoughtful and incisive
8 questions today.

9 Closing remarks are just that, closing. I would
10 just have one or two brief comments.

11 With regard to the forged and the bar stock valve
12 issue, it's ultimately a tempest in a teapot. We originally
13 were claiming that our forged valves were not subject
14 merchandise and the argument was that they are subject. Now
15 I'm understanding that we're claiming they're subject and
16 the Petitioner appears to be arguing they're not subject.

17 We don't really care. Do what you want with the
18 forged and the bar stock valves. We sell bar stock valves,
19 they're subject to the order if there is an order, and there
20 is no dispute onto that.

21 With the rest, we've explained our position.
22 We've answered the questions, and we think that the
23 Commission understands where we're going and we look forward
24 to presenting our post-hearing brief.

25 With that I'd like to thank everyone again on the

1 Commission, and I'm going to sit down.

2 Thank you.

3 CHAIRMAN ARANOFF: I didn't even get close to
4 having to use the gavel there.

5 Thank you again to all of the parties for your
6 participation in today's hearing. Post-hearing briefs,
7 statements responsive to questions, and requests of the
8 Commission and corrections to the transcript must be filed
9 by March 17, 2009.

10 Closing of the record and final release of data to
11 parties will take place on April 1, 2009. Not kidding.

12 And final comments are due on April 3, 2009.

13 With that, this hearing is adjourned.

14 (Whereupon, at 3:28 p.m., the hearing in the
15 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION**TITLE:** Frontseating Service valves from China**INVESTIGATION NO.:** 731-TA-1148 (Final)**HEARING DATE:** March 10, 2009**LOCATION:** Washington, D.C.**NATURE OF HEARING:** Public Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: March 10, 2009**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: Micah J. Gillett

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: John Del Pino

Signature of Court Reporter